

STATE OF TENNESSEE
BEFORE THE TENNESSEE REGULATORY AUTHORITY

RECEIVED IN
REGULATORY AUTH.

IN RE:

THE PETITION OF KENTUCKY UTILITIES COMPANY FOR AN ORDER AUTHORIZING THE ISSUANCE OF SECURITIES AND THE ASSUMPTION OF OBLIGATIONS

EXECUTIVE SECRETARY

DOCKET NO.

00-00364

PETITION

The Petition of KENTUCKY UTILITIES COMPANY ("Petitioner"),
pursuant to T.C.A. § 65-4-109, respectfully shows:

1. Petitioner is a corporation organized and existing under the laws of the Commonwealth of Kentucky and is an electric utility engaged in the business thereof primarily in Kentucky. Petitioner serves approximately five (5) customers in Tennessee, all of whom are located in one county, and its electric utility property located in Tennessee consists of approximately seven and one-half pole miles of electric lines and one distribution substation, all of which property has a total gross value of approximately \$250,000.00. Revenues from such customers during the year 1999 were \$1,846.00 (less than 1/10th of 1% of Applicant's total operating revenues).

2. The post office address of Petitioner is One Quality Street, Lexington, Kentucky 40507.

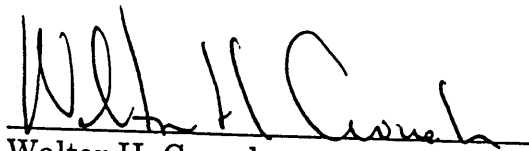
3. The Public Service Commission for the Commonwealth of Kentucky has previously considered and approved the refinancing of the Pollution Control Bonds proposed in this Petition.

4. The titles and amounts of the securities of Petitioner which are to be issued in connection with the proposed security transaction are described in the following exhibits filed herewith which are incorporated herein by reference:

<u>Exhibit No.</u>	<u>Description</u>
1	(True copy) February 1, 2000, Application filed with the Public Service Commission of Kentucky, including supporting exhibits 1 through 4.
2	(True copy) Testimony of Charles A. Mackel, Treasurer of Kentucky Utilities Company.
3	(True copy) February 23, 2000, Order by the Kentucky Public Service Commission requesting information.
4	(True copy) Response by Kentucky Utilities Company to request by the Kentucky Public Service Commission for information.
5	(True copy) March 1, 2000, Kentucky Utilities Company letter (amendment to the February 1, 2000 Application).
6	(True copy) Order of the Public Service Commission of Kentucky approving Kentucky Utilities Company's refinancing of the Pollution Control Revenue Bonds that are the subject of this Application.

WHEREFORE, Kentucky Utilities Company asks that the Tennessee Regulatory Authority enter its order authorizing Kentucky Utilities Company to execute, deliver and perform its obligations under the Loan Agreements, any Guarantees, any Remarketing Agreements and the various credit and hedging facilities and related notes set forth in this Petitioner.

Respectfully submitted:

A handwritten signature in black ink, appearing to read "Walter H. Crouch", written over a horizontal line.

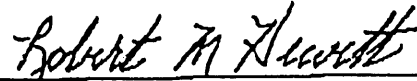
Walter H. Crouch
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Counsel for Kentucky Utilities Company

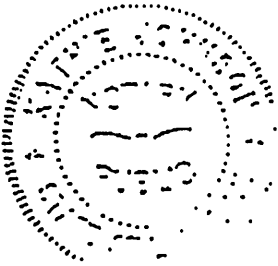
COMMONWEALTH OF KENTUCKY)

COUNTY OF JEFFERSON)

Robert M. Hewett, being first duly sworn, deposes and says that he is Group Executive - Regulatory Affairs of Kentucky Utilities Company, the Applicant in the foregoing Application, and that he has read the foregoing Application and knows the contents thereof, and that the same is true of his own knowledge except as to matters which are stated on information or belief, and as to those matters he believes them to be true.

Robert M. Hewett

SUBSCRIBED AND SWORN TO before me in said County by Robert M. Hewett this
4th day of May, 2000.

Kathie Johnson
Notary Public, State of KentuckyMy Commission Expires: 9-28-2002

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF KENTUCKY UTILITIES COMPANY FOR)	
AN ORDER AUTHORIZING THE ISSUANCE)	Case No.
OF SECURITIES AND THE ASSUMPTION)	
OF OBLIGATIONS)	

APPLICATION FOR APPROVAL OF FINANCING

Kentucky Utilities Company ("KU" or "Company") hereby requests, pursuant to KRS 278.300, that the Commission authorize it to enter into all necessary agreements and other documents related to the refinancing of certain long-term debt as more fully described herein. In support of this Application, KU states as follows:

1. The Company's full name is Kentucky Utilities Company. The post office address of KU is One Quality Street, Lexington, Kentucky 40507. KU is an operating public utility which provides electric services to over 440,000 customers in various counties in Central, Northern, Southeastern and Western Kentucky, as more fully described in Exhibit 1 to this Application.

2. This application relates to the proposed refinancing of one series of pollution control revenue bonds with the proceeds of one new series of pollution control revenue bonds. The particular series of pollution control revenue bonds to be refinanced are:

(i) the \$4,000,000 principal amount of Mercer County, Kentucky, 7.375% Pollution Control Revenue Bonds, 1990 Series A Bonds (Kentucky Utilities Company Project), due May 1, 2010 (the "1990 Mercer Bonds due May 1, 2010"); and

(ii) the \$8,900,000 principal amount of Mercer County, Kentucky, 7.60% Pollution Control Revenue Bonds, 1990 Series A Bonds (Kentucky Utilities Company Project),

due May 1, 2020 (the “1990 Mercer Bonds due May 1, 2020,” and, together with the 1990 Mercer Bonds due May 1, 2010, the “Existing Mercer County Bonds”).

The Existing Mercer County Bonds are herein collectively referred to as the “Existing Bonds.” The purposes of the refinancing of the Existing Bonds are to reduce KU’s cost of debt and extend their maturity dates. In connection with the refinancing of the Existing Bonds, KU would assume certain obligations under one or more loan agreements with Mercer County, Kentucky, and may enter into one or more guarantee agreements guaranteeing repayment of all or any part of the obligations under one or more series of bonds for the benefit of the holders of such bonds.

KU requests authority to assume certain obligations under various agreements in an aggregate principal amount not to exceed \$13.4 million in connection with the proposed issuance of one or more series of Mercer County Pollution Control Revenue Bonds (the “Mercer County Refunding Bonds”). KU proposes to assume such obligations in connection with the refinancing of one or more series of the Existing Bonds.

The proceeds of a series of Mercer County Refunding Bonds would be loaned to KU by Mercer County to provide funds to redeem a corresponding principal amount of Existing Mercer County Bonds. In addition, KU must pay \$178,000 for the redemption premium on the outstanding 1990 Mercer Bonds due May 1, 2020, and approximately \$322,000 for the costs of issuance of the refunding bonds, for a total of \$500,000. In order to obtain funds for these purposes at the lowest cost, KU has filed a request for the allocation of \$500,000 of Year 2000 private activity bond cap with the Kentucky Private Activity Allocation Bond Committee to enable such costs to be financed on a tax-exempt basis. In the event the application for state cap allocation is approved, refunding bonds in the amount not to exceed \$13,400,000 will be issued by Mercer County. If the allocation

request is not approved, refunding bonds in the amount not to exceed \$12,900,000 will be issued by Mercer County.

The following table shows for each series of Existing Bonds (i) the Commission order related to its sale; (ii) the initial public offering price; (iii) proceeds to KU from the sale (after deducting underwriting discounts and commissions); and (iv) KU's expenses associated with the sale:

	<u>KPSC Case No.</u>	<u>Public Offering</u>	<u>Proceeds</u>	<u>Expenses</u>
1990 Mercer Bonds due May 1, 2010	90-131	\$4,000,000	\$3,939,171	\$105,106
1990 Mercer Bonds due May 1, 2020	90-131	\$8,900,000	\$8,764,654	\$233,859

The Existing Mercer County Bonds were issued to provide financing for a portion of the cost of acquiring, constructing, and installing certain solid waste disposal facilities to serve the E. W. Brown Generating Station in Mercer County.

The Existing Bonds are subject to redemption, upon at least thirty days' previous notice, at the following times and at the following prices (expressed as a percentage of their principal amount), plus accrued interest:

	<u>Redemption Period (1)</u>	<u>Redemption Price (1)</u>
1990 Mercer Bonds due May 1, 2010	May 1, 2000 Through May 1, 2010	100.00%
1990 Mercer Bonds due May 1, 2020	May 1, 2000 Through April 30, 2001	102.00%

(1) See Exhibit 4 attached hereto for copies of the pertinent sections of the Official Statement describing such redemption provisions.

The Existing Bonds would be refunded primarily for two reasons. First, current interest rates should allow the new Mercer County Refunding Bonds to be issued initially at lower rates

than the interest rate on the Existing Bonds providing current (or near term) interest expense savings.

In addition, KU could extend the maturity on the Existing Bonds from their current maturities, 2010 and 2020, to a later date, 2020 and 2030, respectively. This extension will allow the continued use of low-cost tax-exempt financing well past the Existing Bonds' current maturities, avoiding the higher cost of taxable debt. In addition, any such interest expense savings coupled with the extension of the maturities described above should enable KU to retain the use of lower-rate tax-exempt financing for a longer period of time and should produce long-term interest expense savings (see the net present value savings analysis attached hereto as Exhibit 3). This low-cost tax-exempt financing directly benefits the Company's ratepayers. Federal law does not presently allow new pollution control financing on a tax-exempt basis for this type of facility, but the federal law does permit the issuance of pollution control bonds to refund existing pollution control bonds within 90 days prior to the redemption of the existing pollution control bonds and to extend the bond maturities within certain limits provided in tax regulations.

The expenses related to the issuance of the Refunding Bonds, and the unamortized expenses of the Existing Bonds would be amortized over the life of the Refunding Bonds.

It is expected that the structure and documentation for the issuance of the Refunding Bonds and related agreements would be similar to the structure and documentation of other pollution control financings of KU approved by this Commission in the past, except that first mortgage bonds of KU would not be issued to secure the Refunding Bonds as they have in the past. The Refunding Bonds would be issued pursuant to one or more indentures (each, an "Indenture"), between the County and one or more trustees (each, a "Trustee"). The proceeds from the sale of one or more

series of Refunding Bonds would be loaned to KU pursuant to one or more loan agreements between the County and KU (each, a "Loan Agreement" and, collectively, the "Loan Agreements").

The payments to be made by KU under the Loan Agreement for one or more series of Refunding Bonds, together with other funds available for the purpose, would be sufficient to pay the principal of, premium, if any, and interest on such Refunding Bonds. The Loan Agreements and the payments to be made by KU pursuant thereto would be assigned by the County to secure the payment of the principal of, premium, if any, and interest on the related Refunding Bonds. Upon issuance of a series of Refunding Bonds, KU may issue one or more guaranties (collectively, the "Guaranties") in favor of the Trustees guaranteeing repayment of all or any part of the obligations under such Refunding Bonds for the benefit of the holders of such Bonds.

Simultaneously with the redemption of any part of the Existing Bonds and the issuance of the related Refunding Bonds, an identical principal amount of the Company's First Mortgage Bonds, which secured the Existing Bonds to be refunded, will be canceled. Thus, the issuance of the Refunding Bonds will decrease the net outstanding principal amount of First Mortgage Bonds of KU. However, total debt outstanding will not change as a result of this offering unless KU's application to the Kentucky State Cap Allocation committee is approved, in which case total debt will increase \$0.5 million.

Mercer County has the power, pursuant to the provisions of the Industrial Building Revenue Bond Act, Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes, to enter into the transactions contemplated by the Loan Agreement and to carry out its obligations thereunder by issuing and selling negotiable bonds and lending the proceeds from the sale of such bonds to KU to finance the acquisition, construction, and installation of certain pollution control facilities, being within the corporate limits of Mercer County, and to refinance existing debt.

The Refunding Bonds would be sold in one or more underwritten public offerings, negotiated sales, or private placement transactions utilizing the proper documentation. Their price, maturity date(s), interest rate(s), redemption provisions, and other terms and provisions of each series of Refunding Bonds (including, in the event all or a portion of Refunding Bonds initially bear a variable rate of interest, the method for determining the interest rate) would be determined on the basis of negotiations among KU, Mercer County, and the purchasers of such bonds. However, the amount of compensation to be paid to underwriters for their services would not exceed 2% of the principal amount of the Refunding Bonds of such series to be sold. The interest rate or rates (and, if applicable, the method for determining the interest rate) applicable to the Refunding Bonds of each such series would be the most favorable rate or method that can be negotiated by KU. The final maturity date of the Refunding Bonds of each such series would be not more than 30 years from the date of the issuance of the Refunding Bonds of such series.

Because of the historical spread between long-term fixed interest rates and short-term rates, all or a portion of the Refunding Bonds may be issued initially with an interest rate that fluctuates on a weekly, monthly or other basis as determined from time to time by KU. KU would have the option to convert such Refunding Bonds at a later date to a fixed rate of interest. Refunding Bonds that bear interest at such variable rates (the "Variable Rate Refunding Bonds") also may be subject to tender by the holders thereof for redemption or purchase. In order to provide funds to pay the purchase price of such tendered Variable Rate Refunding Bonds, KU would enter into one or more remarketing agreements with one or more remarketing agents whereby the remarketing agent would use its best efforts to remarket such tendered Variable Rate Refunding Bonds to other purchasers at a price equal to the purchase price of such Variable Rate Refunding Bonds. Thus, to the extent Variable Rate Refunding Bonds are issued, the documentation will be very similar to

KU's 1994 Series A Carroll County Bonds (the "Prior Variable Bonds"), which were issued with a variable interest rate.

Also, in the event that Variable Rate Refunding Bonds are issued, KU may enter into one or more liquidity facilities (the "Current Facility") with a bank or banks to be selected by KU (the "Bank"). The Current Facility would be a credit agreement designed to provide KU with immediately available funds with which to make payments with respect to any Variable Rate Refunding Bonds which have been tendered for purchase and not remarketed. The Current Facility is not expected to be pledged for the payment of the Variable Rate Refunding Bonds or to constitute security therefore. KU entered into liquidity facilities with a number of banks selected by KU in connection with the Prior Variable Bonds. The Current Facility in the present case may consist in whole or part of such liquidity facilities. Pursuant to the Current Facility, KU may be required to execute and deliver to the Bank a note (the "Current Facility Note") evidencing KU's obligations to the Bank under the Current Facility.

In order to obtain terms and conditions more favorable to KU than those provided in the Current Facility or to provide for additional liquidity or credit support to enhance the marketability of the Variable Rate Refunding Bonds, KU desires to be able to replace the Current Facility with (or to initially use) one or more substitute liquidity support and/or credit support facilities (the instrument providing the liquidity support and/or credit support and any subsequent replacement support facility thereof, including any replacement facility which replaces a replacement facility, is hereinafter referred to as a "Facility") with one or more banks, insurance companies or other financial institutions to be selected by KU from time to time (each such financial institution hereinafter referred to as a "Facility Provider"). A Facility may be in the nature of a letter of credit, revolving credit agreement, standby credit agreement, bond purchase agreement, bond insurance, or

other similar arrangement designed to provide liquidity and/or credit support for the Variable Rate Refunding Bonds. It is contemplated that, in the event the Variable Rate Refunding Bonds are converted to bear interest at a fixed rate, the Current Facility (if not already replaced or terminated) or, if applicable, the Facility (unless earlier terminated) will be terminated in whole or in part following the date of conversion of such series of Variable Rate Refunding Bonds.

In connection with any Facility, KU proposes to enter into one or more credit agreements ("Credit Agreements") with the Facility Provider or Providers of such Facility, which will contain the terms of reimbursement or payment to be made by KU to the subject Facility Providers for amounts advanced by the Facility Providers under the particular Facility. Depending upon the exact nature of a Facility, KU may be required to execute and deliver to the subject Facility Provider a promissory note (each such note hereinafter referred to as a "Facility Note") evidencing KU's repayment obligations to the Facility Provider under the related Credit Agreement, and the Trustee under the Indenture for the Variable Rate Refunding Bonds may be authorized, upon the terms set forth in such Indenture and any Credit Agreement, to draw under the Facility for the purpose of paying the purchase price of Variable Rate Refunding Bonds tendered or required to be tendered for purchase in accordance with the terms of the Indenture which are not remarketed by the Remarketing Agent as provided in the Remarketing Agreement and/or for the purpose of paying accrued interest on the Variable Rate Refunding Bonds when due and paying principal, whether at maturity, upon redemption, acceleration or otherwise.

In connection with the issuance of the Refunding Bonds, KU may enter into one or more interest rate hedging arrangements (including an interest rate swap, cap, collar, or similar agreement collectively the "Hedging Facility") with a bank or financial institution (the "Counterparty"). The Hedging Facility will be an interest rate agreement designed to allow KU to actively manage and

limit its exposure to variable interest rates or to lower its overall borrowing cost on any fixed rate Refunding Bonds. The Hedging Facility will set forth the specific terms upon which KU will agree to pay the Counterparty payments and/or fees for limiting its exposure to interest rates or lowering its fixed rate borrowing cost, and the other terms and conditions of any rights or obligations thereunder.

The terms of each Facility, each Credit Agreement, each Facility Note and each Hedging Facility would be negotiated by KU with the respective Bank, Facility Provider or Counterparty and would be the most favorable terms that can be negotiated by KU. The aggregate outstanding principal amount of the obligations of KU at any time under the Loan Agreements, the Guaranties, and the credit facilities and related notes set forth in the immediately preceding sentence will not exceed the original aggregate principal amount of the Refunding Bonds (which will not exceed an aggregate principal amount of \$13.4 million) plus accrued, but unpaid, interest and premium, if any, on such Bonds.

3. No contracts have been made for the disposition of any of the securities which KU proposes to issue, or for the proceeds of such sale.

4. KU shall, as soon as reasonably practicable after the issuance of the securities referred to herein, file with the Commission a statement setting forth the date or dates of issuance of the securities, the price paid therefor, the interest rate(s) (and, if applicable, their method of determination), the purchasers, and all fees and expenses, including underwriting discounts or commissions or other compensation, involved in the issuance and distribution.

5. Exhibit 1 to this Application contains a description of KU's property, as required by 807 KAR 5:001, Section 11 (1)(a), and the Financial Exhibit required by 807 KAR 5:001, Section 11 (2)(a), as described by 807 KAR 5:001, Section 6. It also contains the information required by

807 KAR 5:001, Section 11 (2)(b). Since no new construction is proposed, no information can be supplied pursuant to 807 KAR 5:001, Sections 11 (1)(d) and (2)(c).

6. Exhibit 2 to this Application is a certified copy of the Board of Directors resolution authorizing the assumption of obligations under the Loan Agreements, the Guaranties and all transactions related thereto and discussed in this Application.

7. Exhibit 3 to this Application is a net present value savings analysis for the refinancing of the Existing Bonds.

8. Exhibit 4 to this Application is a copy of the pertinent sections of the Official Statement describing the redemption provisions for the Existing Bonds.

9. KU's Articles of Incorporation were filed previously with the Commission in Case No. 97-300, and are incorporated herein by this reference.

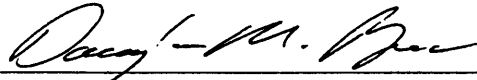
10. Other requirements of the Commission's regulation regarding this Application, 807 KAR 5:001, Section 11, including (1)(b) regarding the amount and kinds of notes, etc., and (1)(c) regarding the use to be made of the proceeds, have been supplied in the extensive discussion in section 2 of this Application.

11. Interest rates are at relatively low levels. In order to take advantage of these levels and any further improvement in the capital markets the Company plans for these securities to be used as early as March 2000. This schedule could be affected, however, by conditions of the debt markets. To achieve the lowest cost of money, it is important for the Company to be able to react quickly. Therefore, the Company respectfully requests that the Commission process this Application to afford the Company maximum flexibility in connection with this financing.

WHEREFORE, KU respectfully requests that the Commission enter its order authorizing it to execute, deliver and perform the obligations of KU under the Loan Agreements, any Guaranties,

any Remarketing Agreements and the various credit and hedging facilities and related notes set forth in this Application.


Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Douglas M. Brooks", is positioned above a horizontal line.

Douglas M. Brooks
Senior Counsel Specialist, Regulatory
LG&E Energy Corp.
220 West Main Street
P.O. Box 32010
Louisville, Kentucky 40232
(502) 627-2557
**Counsel for Louisville Gas and Electric
Company**

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

C. A. Markel
C. A. MARKEL

 (SEAL)
NOTARY PUBLIC
Kentucky, State at Large

8-31-2003

KENTUCKY UTILITIES COMPANY
(807 KAR 5:001, Section 11, Item 1(a))

A DESCRIPTION OF APPLICANT'S PROPERTY, INCLUDING A
STATEMENT OF THE NET ORIGINAL COST OF THE PROPERTY
AND THE COST THEREOF TO APPLICANT

OCTOBER 31, 1999

The applicant owns and operates five coal fired steam electric generating stations having an estimated total effective capacity, with all equipment in service, of about 3,123,000 Kw; two hydroelectric generating stations having an estimated total effective capability of about 24,000 Kw; and five gas/oil peaking units having an estimated total effective capability of about 571,000 Kw.

The applicant's owned electric transmission system includes 107 substations with a total capacity of approximately 14,5438,240 Kva and approximately 4,727,330 structure miles of lines. The electric distribution system includes 437 substations with a total capacity of approximately 4,302,120 Kva, and 4,272 structure miles of overhead lines.

Other properties include office buildings, service centers, warehouses, garages, and other structures and equipment.

The net original cost of the property and cost thereof to the applicant at October 31, 1999, was:

<u>Utility Plant</u>	
Original Cost	
Intangible Plant	\$ 131,746
Production Plant	1,437,167,303
Transmission Plant	422,301,666
Distribution Plant	778,049,744
General Plant	57,854,892
Transportation Plant	22,162,993
Construction Work in Progress	<u>104,224,480</u>
Total Plant at Original Cost	\$2,821,892,824
Less Reserve for Depreciation	1,275,054,716
Net Original Cost	<u>\$1,546,838,108</u>

KENTUCKY UTILITIES COMPANY

FINANCIAL EXHIBIT
(807 KAR 5:001 SEC. 6)

OCTOBER 31, 1999

- (1) Amount and kinds of stock authorized.

300,000,000 shares of Common Stock, without par value.
400,000 shares of Cumulative Preferred Stock, without par value.

- (2) Amount and kinds of stock issued and outstanding.

Common Stock:
37,817,878 shares issued and outstanding.

Preferred Stock
\$100 stated value, 4-3/4% cumulative, 200,000 shares issued and outstanding.
\$100 stated value, 6.53% cumulative, 200,000 shares issued and outstanding.

- (3) Terms of preference of preferred stock whether cumulative or participating, or on dividends or assets otherwise.

Preferred Stock outstanding has cumulative provision on dividends.

- (4) Brief description of each mortgage on property of applicant, giving date of execution, name of mortgagor, name of mortgagee, or trustee, amount of indebtedness authorized to be secured thereby, and the amount of the indebtedness actually secured, together with any sinking fund provisions.

Mortgage indenture dated May 1, 1947, executed by and between the Company and Continental Illinois Bank and Trust Company of Chicago (the "Trustee") and Edmund B. Stofft, as trustees and amended by the several indentures supplemental thereto. As of June 30, 1999, the amount of indebtedness secured thereby was \$546,330,000. The indenture does not fix an overall limitation on the aggregate principal amount of bonds of all series that may be issued or outstanding thereunder. The sinking fund requirements (exclusive of redemption premium) for bonds outstanding at October 31, 1999 will aggregate \$376,000 each year for the period 1995 through 1999. The requirements may be satisfied with net expenditures of bondable property, at the rate of 166-2/3% of the requirement, or with cash or, as to the bonds of each series, with bonds of that series.

- (5) Amount of bonds authorized, and amount issued giving the name of the public utility which issued the same, describing each class separately, and giving date of issue, face value, rate of interest, date of maturity and how secured, together with an amount of interest paid thereon during the last fiscal year.

First Mortgage Bonds authorized and issued by Kentucky Utilities Company at October 31, 1999, secured by a first mortgage lien, subject only to permitted encumbrances, on all or substantially all the permanent fixed properties, other than excluded property, owned by the Company:

Series	Date of Issue	Date of Maturity	Rate of Interest	Principal Amount		Interest Expense Year Ended October 31, 1999
				Authorized	Outstanding at October 31, 1999	
P	5/15/92	5/15/07	7.92%	\$ 53,000,000	\$ 53,000,000	4,038,020
P	5/15/92	5/15/27	8.55%	33,000,000	33,000,000	2,821,500
Q	6/15/93	6/15/00	5.95%	61,500,000	61,500,000	3,659,250
Q	6/15/93	6/15/03	6.32%	62,000,000	62,000,000	3,918,400
R	6/1/95	6/1/25	7.55%	50,000,000	50,000,000	3,775,000
S	1/15/96	1/15/06	5.99%	36,000,000	36,000,000	2,156,400

Pollution Control Bonds

1B	8/1/92	2/1/18	6.25%	\$ 20,930,000	\$ 20,930,000	1,308,125
2B	8/1/92	2/1/18	6.25%	2,400,000	2,400,000	150,000
3B	8/1/92	2/1/18	6.25%	7,200,000	7,200,000	450,000
4B	8/1/92	2/1/18	6.25%	7,400,000	7,400,000	462,500
7	5/1/90	5/1/10	7.38%	4,000,000	4,000,000	295,000
7	5/1/90	5/10/20	7.60%	8,900,000	8,900,000	676,400
8	9/15/92	9/15/16	7.45%	96,000,000	96,000,000	7,152,000
9	12/1/93	12/1/23	5.75%	50,000,000	50,000,000	2,875,000
10	11/1/94	11/1/24	Variable	54,000,000	54,000,000	1,773,789

TOTAL \$ 546,330,000 \$ 35,511,384

* An interest rate swap relating to Series P was executed in May 1999 wherein KU receives a fixed rate of 7.92% and pays six-month LIBOR plus 1.88%. No payments have been made to KU through October 31, 1999.

- (6) Each note outstanding, giving date of issue, amount, date of maturity, rate of interest in whose favor, together with amount of interest paid thereon during the last fiscal year.

Secured Note – Thurman Hardin

<u>Date of Issue</u>	<u>Amount</u>	<u>Rate of Interest</u>	<u>Date of Maturity</u>	<u>Interest Paid Year Ended October 31, 1999</u>
12/27/89	\$ 85,116	8.00%	1/5/99	\$ 307

- (7) Other indebtedness, giving same by classes and describing security, if any with a brief statement of the devolution or assumption of any portion of such indebtedness upon or by person or corporation if the original liability has been transferred, together with amount of interest paid thereon during the last fiscal year.

None, other than current and accrued liabilities.

- (8) Rate and amount of dividends paid during the five previous fiscal years, and amount of capital stock on which dividends were paid. (1)

Dividends on Common Stock, without par value

<u>Year</u>	<u>Amount Declared</u>
1994	61,644,000
1995	63,250,000
1996	65,047,000
1997	66,559,000
1998	76,091,000
October 1999	55,000,000

- (1) As of May 1998, the 37,817,878 shares are all owned by LG&E Energy Corp. and all dividends declared by KU's Board of Directors are paid to LG&E Energy Corp.

Dividends on 4 3/4% Cumulative Preferred Stock

For each of the quarters in the previous five fiscal years, the Company declared and paid dividends of \$1.1875 per share on the 200,000 outstanding shares of 4 3/4% Cumulative Preferred Stock, \$100 stated value, for a total of \$ 237,500 per quarter. On an annual basis the dividend amounted to \$4.75 per share, or \$950,000.

Dividends on 6.53% Cumulative Preferred Stock

For each of the quarters in the previous five fiscal years, the Company declared and paid dividends of \$1.6325 per share on the 200,000 outstanding shares of 6.53% Cumulative Preferred Stock, \$100 stated value, for a total of \$326,500 per quarter. On an annual basis the dividend amounted to \$6.53 per share, or \$1,306,000.

(9) Detailed Income Statement and Balance Sheet

Monthly Financial and Operating Reports are filed each month with the Commission. Our most recent mailing covered financial statements for periods through September 30, 1999. Attached are detailed Statements of Income, Balance sheets and Retained Earnings for the Company for the period ending October 31, 1999.

KENTUCKY UTILITIES COMPANY
(807 KAR 5:001, Section 11, Item 2(a))

The 1998 Annual Report to Stockholders of LG&E Energy Corp. ("LG&E Energy") contains consolidated Statements of Income, Balance sheets, Statements of Retained Earnings, Statements of Cash Flows, Statements of Capitalization, Management's Discussions and Analysis of Results of Operation and Financial Conditions, and Notes to Financial Statements, for LG&E Energy and its subsidiaries including Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively, the "Companies"). The Annual Report, the FERC Forms 1 and 2 (Form 2 required for LG&E only), and subsequent monthly reports of the Companies have been previously filed with the Commission.

We have also attached the succeeding three pages, detailed Statements of Income, Balance Sheets and Statements of Retained Earnings for the Companies for the period ending October 31, 1999.

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
OCTOBER 31, 1999

EXHIBIT 1
Page 7 of 10

	YEAR ENDED CURRENT MONTH		
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT %
Electric Operating Revenues.....	936,431,526.48	815,580,233.00	120,851,293.48 14.82
Rate Refunds.....	(23,801,713.50)	(1,349,247.00)	(22,452,466.50) 1,664.07
Total Operating Revenues.....	912,629,812.98	814,230,986.00	98,398,826.98 12.08
Operating Expenses			
Fuel	217,376,115.55	218,935,321.89	(1,559,206.34) (0.71)
Power Purchased.....	241,478,786.12	107,267,228.77	134,211,557.35 125.12
Other Operation Expenses.....	118,293,728.24	122,280,374.19	(3,986,601.75) (3.26)
Maintenance.....	59,817,276.46	61,805,889.30	(1,988,612.84) (3.22)
Depreciation.....	88,939,582.68	86,253,933.35	2,685,649.33 3.11
Amortization Expense.....	32,595.91	79,093.54	(46,497.63) (58.79)
Taxes			
Federal Income.....	47,540,225.98	50,777,657.00	(3,237,431.02) (6.38)
State Income.....	11,222,700.47	12,279,389.00	(1,056,688.53) (8.61)
Deferred Federal Income - Net.....	(10,571,823.98)	336,760.00	(10,908,583.98) (3,239.28)
Deferred State Income - Net.....	(2,061,272.47)	605,603.00	(2,666,875.47) (440.37)
Federal Income - Estimated.....	2,943,001.08	-	2,943,001.08 n/m
State Income - Estimated.....	777,582.22	-	777,582.22 n/m
Property and Other.....	15,010,058.98	15,939,589.98	(929,531.00) (5.83)
Loss (Gain) from Disposition of Allowances.....	(640,314.01)	(370,191.20)	(270,122.81) 72.97
Total Operating Expenses.....	790,158,243.23	676,190,648.82	113,967,638.61 16.85
Net Operating Income.....	122,471,525.55	138,040,337.18	(15,568,811.63) (11.28)
Other Income Less Deductions			
Interest and Dividend Income.....	3,653,367.07	1,638,746.07	2,014,621.00 122.94
Other Income Less Deductions.....	4,306,560.86	(15,939,872.83)	20,246,433.69 (127.02)
AFUDC - Equity.....	24,108.29	46,768.00	(22,659.71) (48.45)
Total Other Income Less Deductions.....	7,984,036.22	(14,254,358.76)	22,238,394.98 (156.01)
Income Before Interest Charges.....	130,455,605.97	123,785,978.42	6,669,583.35 5.39
Interest on Long Term Debt.....	35,511,692.41	35,854,651.37	(342,958.96) (0.96)
Amortization of Debt Expense - Net.....	1,481,711.16	1,481,711.16	-
Other Interest Expenses.....	1,419,759.57	1,386,299.74	33,459.83 2.41
AFUDC - Borrowed Funds.....	(10,019.01)	(22,295.00)	12,275.99 (55.06)
Total Interest Charges.....	38,403,144.13	38,700,367.27	(297,223.14) (0.77)
Net Income.....	92,052,461.84	85,085,611.15	6,966,806.49 8.19
Preferred Dividend Requirements.....	2,256,009.11	2,256,010.02	(0.91) -
Earnings Available for Common.....	89,796,452.73	82,829,601.13	6,966,807.40 8.41

KENTUCKY UTILITIES COMPANY
COMPARATIVE BALANCE SHEETS AS OF OCTOBER 31, 1999 AND 1998

ASSETS AND OTHER DEBITS	THIS YEAR	LAST YEAR	LIABILITIES AND OTHER CREDITS	THIS YEAR	LAST YEAR
Utility Plant			Capitalization		
Utility Plant at Original Cost.....	2,821,892,824.26	2,666,003,853.28	Common Stock.....	308,139,977.56	308,139,977.56
Less Reserves for Depreciation & Amortization.....	(1,275,054,716.18)	(1,196,400,988.88)	Common Stock Expense.....	(321,288.87)	(321,288.87)
Total.....	1,546,838,108.08	1,469,602,864.40	Retained Earnings.....	329,758,774.54	312,945,145.49
			Unappropriated Undistributed Subsidiary Earnings.....	1,014,338.17	1,031,514.49
Investments - At Cost			Total Common Equity.....	638,591,801.40	621,795,348.67
Nonutility Property-Less Reserve.....	3,831,345.69	2,570,723.10	Preferred Stock.....	39,726,894.58	39,726,894.58
Investments in Subsidiary Companies.....	2,310,138.17	2,327,314.49	First Mortgage Bonds.....	484,830,000.00	546,330,000.00
Other.....	887,583.20	777,798.44	Other Long-Term Debt.....	-	21,278.98
Special Funds.....	7,382,066.73	7,251,694.92	Total Capitalization.....	1,163,148,695.98	1,207,873,522.23
Total.....	14,411,133.79	12,927,530.95			
Current and Accrued Assets			Current and Accrued Liabilities		
Cash.....	(27,085.10)	3,544,110.17	Advances from Associated Companies.....	46,667,167.98	-
Special Deposits.....	201,264.46	102,231.68	Long-Term Debt Due in 1 Year.....	61,500,000.00	-
Temporary Cash Investments.....	149,762.86	25,031,682.20	Accounts Payable.....	85,799,300.30	59,325,755.79
Accounts Receivable-Less Reserve.....	91,168,703.46	86,497,698.80	Accounts Payable to Associated Companies.....	20,117,650.97	15,100,387.77
Accounts Receivable from Assoc Companies.....	34,739,543.77	19,756,466.21	Customer Deposits.....	10,361,723.92	10,304,927.89
Materials & Supplies-At Average Cost			Taxes Accrued.....	19,277,848.69	20,861,828.21
Allowance Inventory.....	514,484.00	659,351.00	Interest Accrued.....	12,218,949.86	13,028,006.33
Fuel.....	32,645,134.36	19,660,385.09	Dividends Declared.....	376,071.08	376,000.00
Plant Materials & Operating Supplies.....	20,898,233.37	19,883,349.41	Misc. Current & Accrued Liabilities.....	16,271,789.33	15,079,814.90
Stores Expense.....	4,201,202.82	4,291,500.70	Total.....	272,590,502.13	134,076,720.89
Prepayments.....	2,369,018.07	2,994,609.09			
Miscellaneous Current & Accrued Assets.....	173,506.91	-			
Total.....	187,033,768.98	182,421,384.35	Deferred Credits and Other		
			Accumulated Deferred Income Taxes.....	320,982,898.00	314,963,086.00
De Unamortized Debt Expense			Investment Tax Credit.....	19,203,893.00	22,937,417.00
Unamortized Loss on Bonds.....	4,893,514.09	5,294,165.41	Deferred Tax Liability.....	68,283,431.00	72,899,544.00
Accumulated Deferred Income Taxes.....	7,774,556.76	8,855,616.60	Customer Advances for Construction.....	1,206,779.02	1,324,878.75
Deferred Regulatory Assets.....	81,631,496.45	69,309,897.00	Other Deferred Credits.....	7,129,825.07	5,486,935.52
Other Deferred Debits.....	42,609,313.01	46,634,057.35	Misc. Long-Term Liabilities.....	18,644,246.92	19,290,642.73
Total.....	25,294,295.78	19,188,958.06	Misc. Long-Term Liab. Due to Assoc. Co.....	2,242,913.00	2,242,913.00
			Accum Provision for Post-Retirement Benefits.....	37,053,002.82	33,138,814.00
Total Assets and Other Debits			Total.....	474,746,988.83	472,284,231.00
Total Assets and Other Debits	1,910,486,186.94	1,814,234,474.12	Total Liabilities and Other Credits	1,910,486,186.94	1,814,234,474.12

KENTUCKY UTILITIES COMPANY
ANALYSIS OF RETAINED EARNINGS
OCTOBER 31, 1999

	Year to Date		Year Ended Current Month	
	Unappropriated Retained Earnings	Appropriated Retained Earnings	Total Retained Earnings	Undistributed Subsidiary Earnings
Retained Earnings and Undistributed Earnings				
Balance Beginning of Period.....	298,192,016.23	114,735.25	298,306,751.48	860,638.13
Net Income To Date.....	88,485,729.86		88,485,729.86	
Adjust for Equity in Subsidiary Earnings for Year				
-EE Inc.....	(1,968,629.60)		(1,968,629.60)	1,968,629.60
Dividends Rec'd Current Year				
-EE Inc.....	1,814,929.56		1,814,929.56	(1,814,929.56)
Preferred Stock Dividends.....	(1,880,006.76)		(1,880,006.76)	
Common Stock Dividends - Quarterly.	(55,000,000.00)		(55,000,000.00)	
Preferred Stock Redemption Exp. and Other.....				
Current Year Provision - Appropriated				
Balance End of Period.....	329,644,039.29	114,735.25	329,758,774.54	1,014,338.17
Combined Retained Earnings	12 Months 10/31/99	12 Months 12/31/98		
Retained Earnings Beginning of Period	313,976,659.98	304,749,528.51		
Add Net Income.....	92,052,461.84	72,764,380.95		
Subtotal.....	406,029,121.82	377,513,909.46		
Deduct				
Dividends on Preferred Stock.....	2,256,009.11	2,256,009.79		
Dividends on Common Stock.....	73,000,000.00	76,090,510.06		
Preferred Stock Redemption Exp and Other.....				
Retained Earnings End of Period...	330,773,112.71	299,167,389.61		

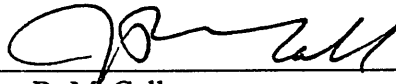
KENTUCKY UTILITIES COMPANY
(807 KAR 5:001, Section 11, Item 2(b))

The Applicant's Indenture of Mortgage or Deed of Trust dated May 1, 1947, as heretofore amended, securing Applicant's outstanding First Mortgage Bonds has heretofore been filed with the Commission. The most recent Supplemental Indenture, dated January 15, 1996, is on file with the Commission in Case No. 93-360 (In the Matter of: Application of Kentucky Utilities Company for an Order Authorizing the Issue of Securities).

SECRETARY'S CERTIFICATE

I, John R. McCall, certify that I am Secretary of Kentucky Utilities Company, a corporation organized and existing under the laws of the State of Kentucky (the "Company"); that I am one of the officers of the Company authorized to make certified copies of the corporate records; and as Secretary, I have access to all original records of the Company. I do hereby certify that attached hereto are resolutions of the Board of Directors of the Company duly adopted at a meeting on December 1, 1999, and that the same are in full force and effect as of the date hereof.

IN WITNESS WHEREOF, I have signed this Certificate this 5th day of January, 2000.



John R. McCall
Secretary

**RESOLUTIONS OF THE BOARD OF DIRECTORS
OF
KENTUCKY UTILITIES COMPANY**

**RE: Refinancing of County of Mercer, Kentucky,
Collateralized Solid Waste Disposal Facility Revenue Bonds
(Kentucky Utilities Company Project)**

December 1, 1999

WHEREAS, the County of Mercer, Kentucky has issued and outstanding: "\$12,900,000 Collateralized Solid Waste Disposal Facility Revenue Bonds (Kentucky Utilities Company Project), 1990 Series A, dated May 1, 1990 and due May 1, 2010 and May 1, 2020, respectively (such series of bonds being hereinafter referred to as the "Existing Mercer County Solid Waste Disposal Bonds"); which provide financing and refinancing for the construction of certain solid waste facilities acquired, constructed, and completed in connection with the Company's Brown Generating Station situated in Mercer County, Kentucky (the "Issuer"); and

WHEREAS, the term bond due May 1, 2010 bears interest at a rate of 7 3/8% and the term bond due May 1, 2020 bears interest at a rate of 7.60%; and

WHEREAS, market conditions may warrant, in the foreseeable future, refinancing of all or a portion of the Existing Mercer County Solid Waste Disposal Bonds, and it is appropriate and in the best interest of the Company that action be taken to authorize such an undertaking.

NOW, THEREFORE, BE IT RESOLVED, by the Board of Directors of the Company as follows:

- (a) That the Chief Executive Officer, the President, any Vice President, or any other officer of the Company be, and each of them hereby is, authorized and directed to cause the preparation of, and to approve, the following documents in connection with the refinancing of all or a portion of the Existing Mercer County Solid Waste Disposal Bonds referred to above:
 - (i) a loan agreement or loan agreements to be entered into between the Company and the Issuer whereby such Issuer will issue one or more series of its Solid Waste Disposal Facility Revenue Refunding Bonds (collectively, the "Refunding Bonds") and loan the proceeds to the Company to be used to pay and discharge all or a part of its Existing Mercer County Solid Waste Disposal Bonds and pursuant to which the Company will be obligated to make loan payments sufficient to pay the principal of, premium, if any, and interest on such Refunding Bonds to be

issued by such Issuer, and any related expenses, (ii) one or more guaranties from the Company in favor of a trustee or trustees chosen or appointed by such officers of the Company (the "Trustee") for the benefit of the holders of the Refunding Bonds guaranteeing repayment of all or any part of the obligations under such Refunding Bonds, (iii) such contracts of purchase, underwriting agreements or similar contracts or agreements with the Issuer and with other appropriate parties relating to the sale of the Refunding Bonds, (iv) a preliminary official statement or preliminary official statements and a final official statement or final official statements which will describe the Company, the Issuer, the Project, the Refunding Bonds, the loan agreement, and indentures of trust pursuant to which such Refunding Bonds are to be issued, and which will be used by the underwriter or underwriters chosen by such officers of the Company (the "Underwriters") in connection with the sale of such Refunding Bonds to the public, (v) a form or forms of escrow agreement, or such other documents as may be deemed appropriate, by and between the Issuer and the Trustee under the indenture pursuant to which the Existing Mercer County Solid Waste Disposal Bonds were issued and pursuant to which certain securities will be held by such Trustees in order to provide for the payment and discharge of the Existing Mercer County Solid Waste Disposal Bonds, (vi) such reimbursement agreements, remarketing agreements, credit agreements or other similar documents or agreements as may be reasonably required, in the event the Refunding Bonds, or any of them, are issued as variable rate demand or similar instruments, in the discretion of such officers, and (vii) such other related documents, forms, certificates or agreements as shall be necessary or appropriate to effectuate such refinancing.

- (b) That the Chief Executive Officer, the President, any Vice President, or any other officer of the Company be, and each of them hereby is, authorized and empowered (i) to execute and file, or cause to be filed, on behalf of the Company such applications or petitions with any federal, state, or local commission, court, agency or body having jurisdiction as may be required to obtain any approvals, consents, orders or rulings as such officers or counsel for the Company may deem to be necessary or desirable in connection with the Company's participation in such refinancing and the transactions and documents contemplated thereby, and (ii) to execute and deliver or file such amendments or supplements to said applications or petitions as may be required by law or as may be deemed to be proper or appropriate in their judgment or in the judgment of counsel for the Company in connection with the foregoing.

- (c) That the Company shall borrow the sum of not to exceed \$13,400,000 from the Issuer in accordance with the terms of the loan agreement, and the proceeds of such borrowings shall be used by the Company to pay and discharge all or a portion of the Existing Mercer County Solid Waste Disposal Bonds and for such other purposes, if any, as may be provided in the any of the agreements and documents required to be executed and delivered in connection with the issuance of the Refunding Bonds.
- (d) That the Chief Executive Officer, the President, any Vice President or any other officer of the Company be; and each of them, hereby is authorized to approve offers for the purchase from the County of Mercer, Kentucky, of not to exceed \$13,400,000 principal amount of Refunding Bonds. Such purchases may be through negotiation, competitive bidding, or private placement transaction, as determined to be reasonable. The proceeds will be loaned to the Company, at such purchase prices, which shall be not less than the principal amount thereof plus accrued interest from the date of such Refunding Bonds to the date of closing, and at such interest rate or rates, as determined to be reasonable.
- (e) That the appropriate officers of the Company be, and each of them, hereby is authorized to execute, on behalf of the Company, a loan agreement with County of Mercer, Kentucky, providing for the loan to the Company of the proceeds of not to exceed \$13,400,000 principal amount of Refunding Bonds, in accordance with the terms and provisions thereof.
- (f) That the appropriate officers of the Company be, and each of them, hereby is authorized to execute, on behalf of the Company, one or more guaranties in favor of the Trustee for the benefit of the holders of the Refunding Bonds guaranteeing the payment of all or any part of the obligations under such Refunding Bonds.
- (g) That the appropriate officers of the Company be, and each of them, hereby is authorized to execute, on behalf of the Company, Contracts of Purchase, underwriting agreements or similar contracts or agreements with Mercer County, Kentucky, and with other appropriate parties relating to the sale of not to exceed \$13,400,000 principal amount of Refunding Bonds; provided, however, that each such contract shall be entered into, and Existing Mercer County Solid Waste Disposal Bonds refinanced with proceeds from the sale of Refunding Bonds pursuant to such contract, only if at the time such contract is executed on behalf of the Company, such refinancing would result in interest savings for the Company.
- (h) That in the event all or a portion of the Refunding Bonds bear a variable rate of interest, the appropriate officers of the Company be, and each of them, hereby is authorized to execute on behalf of the Company one or

more remarketing agreements, reimbursement agreements or similar agreements with appropriate parties providing for the remarketing of such Refunding Bonds, a credit agreement or credit agreements or similar agreements and any promissory notes to be issued pursuant to such agreements for the purpose of providing a source of funds upon tender of such Bonds, and any other agreements in order to consummate the transactions contemplated by the Loan Agreement.

- (i) That in the event all or a portion of the Refunding Bonds bear a fixed or a variable rate of interest, or all or a portion of the Existing Mercer County Solid Waste Disposal Bonds are to be refinanced through a forward refunding, the appropriate officers of the Company be, and each of them, hereby is authorized to execute on behalf of the Company: (i) one or more interest rate swap, collar, or cap agreements or similar agreements with one or more underwriters, banks or other financial institutions providing for the hedging of the interest rate on such bonds and (ii) any other agreement, document or instrument that may be necessary or appropriate in connection with any such transaction.
- (j) That the Chief Executive Officer, the President, any Vice President, or any other officer of the Company be, and each one of them is, authorized, empowered and directed to take any action and to execute and deliver any document, certificate or other instrument, including one or more escrow agreements, that may be necessary or appropriate: (i) to call for redemption the Existing Mercer County Solid Waste Disposal Bonds and first mortgage bonds which secure such Existing Mercer County Solid Waste Disposal Bonds on such date as said officer or officers may deem appropriate, or (ii) to otherwise effect the payment and discharge of the Existing Mercer County Solid Waste Disposal Bonds and first mortgage bonds which secure such Existing Mercer County Solid Waste Disposal Bonds.
- (k) That the Chief Executive Officer, the President, any Vice President, or any other officer of the Company be and they are hereby authorized and empowered to take all steps or actions, and to execute and deliver any other documents, certificates or other instruments, deemed necessary, proper or appropriate in their judgment or in the judgment of counsel for the Company in connection with the refinancing referred to above and to carry out the purposes of the foregoing resolutions.
- (l) That Charles A. Markel III is hereby appointed as "Company Representative" and R. Foster Duncan and Michael D. Robinson are hereby appointed as "Alternate Company Representatives," respectively, under the provisions of the solid waste disposal facility indentures and the loan agreements. The President and any Vice President of the Company

are authorized to appoint from time to time other persons (who may be employees of the Company) to act as "Company Representative" or "Alternate Company Representative" under the solid waste disposal facility indentures and the loan agreements.

KENTUCKY UTILITIES COMPANY
Debt Refunding Analysis Assumptions & Summary
(Dollars in Thousands)

Tax-Exempt Pollution Control Series			
	Mercer Co. 05/01/10	Mercer Co. 05/01/20	
Current Principal	\$ 4,000	\$ 8,900	
Current Rate	7.375%	7.600%	
Call Premium	\$ -	\$ 178.0	
Sinking Fund	No	No	
<hr/>			
Assumed Refunding Date	3/17/00	3/17/00	
Assumed Maturity	2020	2030	
Assumed Rate	3.750% ⁽¹⁾	3.750% ⁽¹⁾	
Assumed Bond Issue Costs	\$ 60.0	\$ 133.5 ⁽¹⁾	
Present Value ^{(2) (3)}			
CASHFLOWS Savings	\$ 1,606	\$ 4,625	\$ 6,231
			TOTAL

Notes:

- (1) Variable refunding rate of 3.75% (based on the 5-year historical average for the BMA index PLUS 20 basis points annually for remarketing fees and backup lines of credit).
- (2) The present value savings analysis is based on facts and assumptions as they exist today. The amount of actual cashflow savings will be affected by the terms and market conditions at the time of issuance of the New Debt.
- (3) Present value calculations' discount rates are equal to the after-tax rate of the New Issue.

KENTUCKY UTILITIES COMPANY
Debt Refunding Analysis

Mercer Co. \$4 million 7.375% PCS 7 due May 1, 2010
Issue Variable Rate; AMT: Maturity Extended to 2020
Impact on Cash Flow

EXISTING CAPITALIZATION										PROPOSED REFUNDING										PRESENT VALUE ANALYSIS									
TAX EXEMPT POLLUTION CONTROL BONDS										TAX EXEMPT POLLUTION CONTROL BONDS										TAX EXEMPT POLLUTION CONTROL BONDS									
Date	Principal Outstanding	Interest @ 7.375%	Debt Expense Amortization	Cumulative Tax Exempt Capital LOST w/o Life Extension	Implicit (1) Interest Cost	Taxes	Total Cash Outlay	Interest @ 3.75%	Debt Expense Amortization	Call Premium & Issue Expenses	Taxes (2)	Total Cash Outlay	Periodic (Cost) or SAVINGS from Refunding	Factor	Present Value SAVINGS														
17-Mar-00	\$ 4,000,000	36,875	658			(15,148)	21,728	18,750	914	\$96,620	(29,533)	\$96,620	1,000		(96,620)														
01-May-00	4,000,000	147,500	2,831			(60,597)	86,903	75,000	3,656		(31,748)	(10,783)	32,506	0.9972	32,419														
01-Nov-00	4,000,000	147,500	2,831			(60,597)	86,903	75,000	3,656		(31,748)	(10,783)	43,651	0.9981	43,048														
01-May-01	4,000,000	147,500	2,831			(60,597)	86,903	75,000	3,656		(31,748)	(10,783)	43,651	0.9752	42,587														
01-Nov-01	4,000,000	147,500	2,831			(60,597)	86,903	75,000	3,656		(31,748)	(10,783)	43,651	0.9643	42,094														
01-May-02	4,000,000	147,500	2,831			(60,597)	86,903	75,000	3,656		(31,748)	(10,783)	43,651	0.9538	41,627														
01-Nov-02	4,000,000	147,500	2,831			(60,597)	86,903	75,000	3,656		(31,748)	(10,783)	43,651	0.9430	41,164														
01-May-03	4,000,000	147,500	2,831			(60,597)	86,903	75,000	3,656		(31,748)	(10,783)	43,651	0.9328	40,707														
01-Nov-03	4,000,000	147,500	2,831			(60,597)	86,903	75,000	3,656		(31,748)	(10,783)	43,651	0.9222	40,255														
01-May-04	4,000,000	147,500	2,831			(60,597)	86,903	75,000	3,656		(31,748)	(10,783)	43,651	0.9120	39,808														
01-Nov-04	4,000,000	147,500	2,831			(60,597)	86,903	75,000	3,656		(31,748)	(10,783)	43,651	0.9018	39,365														
01-May-05	4,000,000	147,500	2,831			(60,597)	86,903	75,000	3,656		(31,748)	(10,783)	43,651	0.8918	38,928														
01-Nov-05	4,000,000	147,500	2,831			(60,597)	86,903	75,000	3,656		(31,748)	(10,783)	43,651	0.8819	38,496														
01-May-06	4,000,000	147,500	2,831			(60,597)	86,903	75,000	3,656		(31,748)	(10,783)	43,651	0.8721	38,068														
01-Nov-06	4,000,000	147,500	2,831			(60,597)	86,903	75,000	3,656		(31,748)	(10,783)	43,651	0.8624	37,645														
01-May-07	4,000,000	147,500	2,831			(60,597)	86,903	75,000	3,656		(31,748)	(10,783)	43,651	0.8528	37,227														
01-Nov-07	4,000,000	147,500	2,831			(60,597)	86,903	75,000	3,656		(31,748)	(10,783)	43,651	0.8434	36,813														
01-May-08	4,000,000	147,500	2,831			(60,597)	86,903	75,000	3,656		(31,748)	(10,783)	43,651	0.8340	36,404														
01-Nov-08	4,000,000	147,500	2,831			(60,597)	86,903	75,000	3,656		(31,748)	(10,783)	43,651	0.8247	36,000														
01-May-09	4,000,000	147,500	2,831			(60,597)	86,903	75,000	3,656		(31,748)	(10,783)	43,651	0.8156	35,600														
01-Nov-09	4,000,000	147,500	2,831			(60,597)	86,903	75,000	3,656		(31,748)	(10,783)	43,651	0.8065	35,204														
01-May-10	4,000,000	147,500	2,831	4,000,000	178,000	(71,845)	106,155	75,000	3,656		(31,748)	(10,783)	43,651	0.7975	34,813														
01-Nov-10	4,000,000	147,500	2,831	4,000,000	178,000	(71,845)	106,155	75,000	3,656		(31,748)	(10,783)	43,651	0.7887	34,410														
01-May-11	4,000,000	147,500	2,831	4,000,000	178,000	(71,845)	106,155	75,000	3,656		(31,748)	(10,783)	43,651	0.7799	34,009														
01-Nov-11	4,000,000	147,500	2,831	4,000,000	178,000	(71,845)	106,155	75,000	3,656		(31,748)	(10,783)	43,651	0.7713	33,611														
01-May-12	4,000,000	147,500	2,831	4,000,000	178,000	(71,845)	106,155	75,000	3,656		(31,748)	(10,783)	43,651	0.7627	33,214														
01-Nov-12	4,000,000	147,500	2,831	4,000,000	178,000	(71,845)	106,155	75,000	3,656		(31,748)	(10,783)	43,651	0.7542	32,819														
01-May-13	4,000,000	147,500	2,831	4,000,000	178,000	(71,845)	106,155	75,000	3,656		(31,748)	(10,783)	43,651	0.7458	32,426														
01-Nov-13	4,000,000	147,500	2,831	4,000,000	178,000	(71,845)	106,155	75,000	3,656		(31,748)	(10,783)	43,651	0.7375	32,035														
01-May-14	4,000,000	147,500	2,831	4,000,000	178,000	(71,845)	106,155	75,000	3,656		(31,748)	(10,783)	43,651	0.7294	31,645														
01-Nov-14	4,000,000	147,500	2,831	4,000,000	178,000	(71,845)	106,155	75,000	3,656		(31,748)	(10,783)	43,651	0.7212	31,257														
01-May-15	4,000,000	147,500	2,831	4,000,000	178,000	(71,845)	106,155	75,000	3,656		(31,748)	(10,783)	43,651	0.7132	30,871														
01-Nov-15	4,000,000	147,500	2,831	4,000,000	178,000	(71,845)	106,155	75,000	3,656		(31,748)	(10,783)	43,651	0.7053	30,487														
01-May-16	4,000,000	147,500	2,831	4,000,000	178,000	(71,845)	106,155	75,000	3,656		(31,748)	(10,783)	43,651	0.6975	30,105														
01-Nov-16	4,000,000	147,500	2,831	4,000,000	178,000	(71,845)	106,155	75,000	3,656		(31,748)	(10,783)	43,651	0.6897	29,725														
01-May-17	4,000,000	147,500	2,831	4,000,000	178,000	(71,845)	106,155	75,000	3,656		(31,748)	(10,783)	43,651	0.6821	29,347														
01-Nov-17	4,000,000	147,500	2,831	4,000,000	178,000	(71,845)	106,155	75,000	3,656		(31,748)	(10,783)	43,651	0.6745	28,971														
01-May-18	4,000,000	147,500	2,831	4,000,000	178,000	(71,845)	106,155	75,000	3,656		(31,748)	(10,783)	43,651	0.6670	28,597														
01-Nov-18	4,000,000	147,500	2,831	4,000,000	178,000	(71,845)	106,155	75,000	3,656		(31,748)	(10,783)	43,651	0.6596	28,225														
01-May-19	4,000,000	147,500	2,831	4,000,000	178,000	(71,845)	106,155	75,000	3,656		(31,748)	(10,783)	43,651	0.6523	27,855														
01-Nov-19	4,000,000	147,500	2,831	4,000,000	178,000	(71,845)	106,155	75,000	3,656		(31,748)	(10,783)	43,651	0.6450	27,487														
01-May-20	4,000,000	147,500	2,831	4,000,000	178,000	(71,845)	106,155	75,000	3,656		(31,748)	(10,783)	43,651	0.6378	27,121														
TOTAL		\$2,988,875	\$53,287		\$3,560,000	\$2,663,990	\$3,892,885	\$3,018,750	\$147,168	\$98,620	\$1,299,480	\$1,815,928	\$2,088,855		\$1,805,771														

(1) Assumes new tax-exempt bonds at the original interest rate are issued at maturity to match proposed extension.

(2) First period tax calculation assumes immediate writeoff of UNAMORTIZED debt expenses plus call premium. Taxes for other periods are based on interest expense and the amortization of NEW issue debt expenses.

KENTUCKY UTILITIES COMPANY
Debt Refunding Analysis

Morocco Co. 55.8MM 7.60% PCS 7 due May 1, 2026
Issue Variable Rate, AMT, Maturity Extended to 2030
Impact on Cash Flow

EXISTING CAPITALIZATION										TAX EXEMPT POLLUTION CONTROL BONDS										PROPOSED REFUNDING										PRESENT VALUE ANALYSIS									
Date	Principal Outstanding	Interest @ 7.60%	Debt Expense Amortization	Cumulative Tax Exempt Capital LOST w/o Life Extension	Implied (1) Initial Cost	Taxes	Total Cash Outlay	Interest @ 3.75%	Debt Expense Amortization	Call Premium & Issue Expenses	Taxes (2)	Total Cash Outlay	Periods (Cost) or SAVINGS from Refunding (\$394,231)	Factor	Present Value SAVINGS (\$394,231)	Periods (Cost) or SAVINGS from Refunding (\$394,231)	Factor	Present Value SAVINGS (\$394,231)	Periods (Cost) or SAVINGS from Refunding (\$394,231)	Factor	Present Value SAVINGS (\$394,231)	Periods (Cost) or SAVINGS from Refunding (\$394,231)	Factor	Present Value SAVINGS (\$394,231)	Periods (Cost) or SAVINGS from Refunding (\$394,231)	Factor	Present Value SAVINGS (\$394,231)	Periods (Cost) or SAVINGS from Refunding (\$394,231)	Factor	Present Value SAVINGS (\$394,231)	Periods (Cost) or SAVINGS from Refunding (\$394,231)	Factor	Present Value SAVINGS (\$394,231)						
01-Jan-00	\$ 8,900,000	64,550	874			(34,520)	50,080	41,719	2,264		(81,499)	(34,520)	86,480	1.0000	86,480	86,480	1.0000	86,480	86,480	1.0000	86,480	86,480	1.0000	86,480	86,480	1.0000	86,480	86,480	1.0000	86,480	86,480	1.0000	86,480						
01-May-00	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	102,812	0.9872	102,812	102,812	0.9872	102,812	102,812	0.9872	102,812	102,812	0.9872	102,812	102,812	0.9872	102,812	102,812	0.9872	102,812	102,812	0.9872	102,812						
01-Sep-00	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	104,258	0.9861	104,258	104,258	0.9861	104,258	104,258	0.9861	104,258	104,258	0.9861	104,258	104,258	0.9861	104,258	104,258	0.9861	104,258	104,258	0.9861	104,258						
01-Jan-01	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	106,540	0.9852	106,540	106,540	0.9852	106,540	106,540	0.9852	106,540	106,540	0.9852	106,540	106,540	0.9852	106,540	106,540	0.9852	106,540	106,540	0.9852	106,540						
01-May-01	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	108,823	0.9843	108,823	108,823	0.9843	108,823	108,823	0.9843	108,823	108,823	0.9843	108,823	108,823	0.9843	108,823	108,823	0.9843	108,823	108,823	0.9843	108,823						
01-Sep-01	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	111,106	0.9834	111,106	111,106	0.9834	111,106	111,106	0.9834	111,106	111,106	0.9834	111,106	111,106	0.9834	111,106	111,106	0.9834	111,106	111,106	0.9834	111,106						
01-Jan-02	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	113,390	0.9825	113,390	113,390	0.9825	113,390	113,390	0.9825	113,390	113,390	0.9825	113,390	113,390	0.9825	113,390	113,390	0.9825	113,390	113,390	0.9825	113,390						
01-May-02	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	115,674	0.9816	115,674	115,674	0.9816	115,674	115,674	0.9816	115,674	115,674	0.9816	115,674	115,674	0.9816	115,674	115,674	0.9816	115,674	115,674	0.9816	115,674						
01-Sep-02	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	117,958	0.9807	117,958	117,958	0.9807	117,958	117,958	0.9807	117,958	117,958	0.9807	117,958	117,958	0.9807	117,958	117,958	0.9807	117,958	117,958	0.9807	117,958						
01-Jan-03	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	120,242	0.9798	120,242	120,242	0.9798	120,242	120,242	0.9798	120,242	120,242	0.9798	120,242	120,242	0.9798	120,242	120,242	0.9798	120,242	120,242	0.9798	120,242						
01-May-03	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	122,526	0.9789	122,526	122,526	0.9789	122,526	122,526	0.9789	122,526	122,526	0.9789	122,526	122,526	0.9789	122,526	122,526	0.9789	122,526	122,526	0.9789	122,526						
01-Sep-03	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	124,810	0.9780	124,810	124,810	0.9780	124,810	124,810	0.9780	124,810	124,810	0.9780	124,810	124,810	0.9780	124,810	124,810	0.9780	124,810	124,810	0.9780	124,810						
01-Jan-04	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	127,094	0.9771	127,094	127,094	0.9771	127,094	127,094	0.9771	127,094	127,094	0.9771	127,094	127,094	0.9771	127,094	127,094	0.9771	127,094	127,094	0.9771	127,094						
01-May-04	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	129,378	0.9762	129,378	129,378	0.9762	129,378	129,378	0.9762	129,378	129,378	0.9762	129,378	129,378	0.9762	129,378	129,378	0.9762	129,378	129,378	0.9762	129,378						
01-Sep-04	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	131,662	0.9753	131,662	131,662	0.9753	131,662	131,662	0.9753	131,662	131,662	0.9753	131,662	131,662	0.9753	131,662	131,662	0.9753	131,662	131,662	0.9753	131,662						
01-Jan-05	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	133,946	0.9744	133,946	133,946	0.9744	133,946	133,946	0.9744	133,946	133,946	0.9744	133,946	133,946	0.9744	133,946	133,946	0.9744	133,946	133,946	0.9744	133,946						
01-May-05	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	136,230	0.9735	136,230	136,230	0.9735	136,230	136,230	0.9735	136,230	136,230	0.9735	136,230	136,230	0.9735	136,230	136,230	0.9735	136,230	136,230	0.9735	136,230						
01-Sep-05	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	138,514	0.9726	138,514	138,514	0.9726	138,514	138,514	0.9726	138,514	138,514	0.9726	138,514	138,514	0.9726	138,514	138,514	0.9726	138,514	138,514	0.9726	138,514						
01-Jan-06	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	140,798	0.9717	140,798	140,798	0.9717	140,798	140,798	0.9717	140,798	140,798	0.9717	140,798	140,798	0.9717	140,798	140,798	0.9717	140,798	140,798	0.9717	140,798						
01-May-06	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	143,082	0.9708	143,082	143,082	0.9708	143,082	143,082	0.9708	143,082	143,082	0.9708	143,082	143,082	0.9708	143,082	143,082	0.9708	143,082	143,082	0.9708	143,082						
01-Sep-06	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	145,366	0.9699	145,366	145,366	0.9699	145,366	145,366	0.9699	145,366	145,366	0.9699	145,366	145,366	0.9699	145,366	145,366	0.9699	145,366	145,366	0.9699	145,366						
01-Jan-07	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	147,650	0.9690	147,650	147,650	0.9690	147,650	147,650	0.9690	147,650	147,650	0.9690	147,650	147,650	0.9690	147,650	147,650	0.9690	147,650	147,650	0.9690	147,650						
01-May-07	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	149,934	0.9681	149,934	149,934	0.9681	149,934	149,934	0.9681	149,934	149,934	0.9681	149,934	149,934	0.9681	149,934	149,934	0.9681	149,934	149,934	0.9681	149,934						
01-Sep-07	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	152,218	0.9672	152,218	152,218	0.9672	152,218	152,218	0.9672	152,218	152,218	0.9672	152,218	152,218	0.9672	152,218	152,218	0.9672	152,218	152,218	0.9672	152,218						
01-Jan-08	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	154,502	0.9663	154,502	154,502	0.9663	154,502	154,502	0.9663	154,502	154,502	0.9663	154,502	154,502	0.9663	154,502	154,502	0.9663	154,502	154,502	0.9663	154,502						
01-May-08	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	156,786	0.9654	156,786	156,786	0.9654	156,786	156,786	0.9654	156,786	156,786	0.9654	156,786	156,786	0.9654	156,786	156,786	0.9654	156,786	156,786	0.9654	156,786						
01-Sep-08	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	159,070	0.9645	159,070	159,070	0.9645	159,070	159,070	0.9645	159,070	159,070	0.9645	159,070	159,070	0.9645	159,070	159,070	0.9645	159,070	159,070	0.9645	159,070						
01-Jan-09	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	161,354	0.9636	161,354	161,354	0.9636	161,354	161,354	0.9636	161,354	161,354	0.9636	161,354	161,354	0.9636	161,354	161,354	0.9636	161,354	161,354	0.9636	161,354						
01-May-09	8,900,000	338,200	3,865			(136,076)	200,122	166,875	9,058		(71,011)	85,864	163,638	0.9627	163,638	163,638	0.9627	163,638	163,638	0.9627																			

NEW ISSUE

† Ratings

Moody's: Aa1
Standard & Poor's: AA
Duff & Phelps: AA

Subject to the conditions and exceptions set forth under the caption "Tax Treatment" herein, Harper, Ferguson & Davis, Louisville, Kentucky, Bond Counsel, is of the opinion that interest on the Series A Bonds will be excluded from gross income of the recipients thereof for federal and Kentucky income tax purposes, except for interest on any Series A Bond during any period in which such Series A Bond is held by a "substantial user" of the Project or a "related person" as such terms are used in Section 147 of the Internal Revenue Code of 1986. Interest on the Series A Bonds is an item of tax preference for purposes of the alternative minimum tax for individuals and corporations and will be taken into account for purposes of computing the environmental and branch profits taxes as well as the tax on passive investment income of certain S corporations. See discussion under the caption "Tax Treatment" herein. Bond Counsel is further of the opinion that principal of the Series A Bonds will be exempt from ad valorem taxation by the Commonwealth of Kentucky and all political subdivisions thereof.

\$12,900,000

**COUNTY OF MERCER, KENTUCKY
COLLATERALIZED SOLID WASTE DISPOSAL FACILITY
REVENUE BONDS (KENTUCKY UTILITIES
COMPANY PROJECT)
1990 SERIES A**

Dated: MAY 1, 1990

Due: MAY 1, as shown below

The Series A Bonds are payable solely from and secured by payments to be received by the County pursuant to a Loan Agreement with Kentucky Utilities Company, except as payable from accrued interest, Series A Bond proceeds or investment earnings thereon. The Series A Bonds will not constitute general obligations of the County or charges against the general credit or taxing powers thereof or of the Commonwealth of Kentucky or any other political subdivision of Kentucky. Principal of, and interest on, the Series A Bonds will be further secured by the delivery from time to time to the Trustee of First Mortgage Bonds of

KENTUCKY UTILITIES COMPANY

The Series A Bonds will be issuable only as fully registered bonds in the denominations of \$5,000 and any integral multiple thereof. Principal will be payable at the principal office of the Trustee, First Security National Bank and Trust Company, Lexington, Kentucky. Semi-annual interest (May 1 and November 1, commencing November 1, 1990) will be payable by check or draft, mailed on the interest payment date by the Trustee to the persons who are the registered owners of the Series A Bonds at the close of business of the Trustee on the fifteenth day of the calendar month next preceding such interest payment date. The Series A Bonds will be subject to optional and mandatory redemption prior to maturity as more fully described herein.

MATURITY SCHEDULE

\$4,000,000 7 $\frac{3}{8}$ % Term Bonds Due May 1, 2010
\$8,900,000 7.60% Term Bonds Due May 1, 2020

Price 100%

(plus accrued interest from May 1, 1990)

The Series A Bonds are offered when, as and if issued by the County and accepted by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice and to the approval of legality by Harper, Ferguson & Davis, Louisville, Kentucky, Bond Counsel, the approval of certain legal matters by Ogden, Sturgill & Welch, Louisville, Kentucky and Jones, Day, Reavis & Pogue, Chicago, Illinois, counsel to the Company, and certain other conditions. It is expected that delivery of the Series A Bonds will be made on or about July 3, 1990, in New York, New York against payment therefor.

J.J.B. Hilliard, W.L. Lyons, Inc.

June 12, 1990

†See "Ratings" herein

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES A BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offer made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by Mercer County, Kentucky, Kentucky Utilities Company or the Underwriter. Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of Mercer County, Kentucky, or Kentucky Utilities Company since the date hereof. This Official Statement does not constitute an offer or solicitation in any state in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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\$12,900,000
COUNTY OF MERCER, KENTUCKY
COLLATERALIZED SOLID WASTE DISPOSAL FACILITY REVENUE BONDS
(KENTUCKY UTILITIES COMPANY PROJECT)
1990 Series A

SUMMARY OF TERMS

Designation	Collateralized Solid Waste Disposal Facility Revenue Bonds (Kentucky Utilities Company Project) 1990 Series A
Issuer	County of Mercer, Kentucky
Company	Kentucky Utilities Company
Purpose	Acquisition and construction of solid waste (primarily flyash and bottom ash) disposal facilities at the Brown Generating Station of the Company in Mercer County, Kentucky near Harrodsburg.
Dated	May 1, 1990
Delivery	July 3, 1990 in New York, New York
Purchase Price	100% plus accrued interest from May 1, 1990
Interest	Payable semiannually on May 1 and November 1 in each year, commencing November 1, 1990
Trustee	First Security National Bank and Trust Company, Lexington, Kentucky
Paying Agent	First Security National Bank and Trust Company, Lexington, Kentucky
Optional Redemption	All 1990 Series A Bonds redeemable at 100% of principal amount upon the occurrence of certain extraordinary events. 1990 Series A Bonds maturing on May 1, 2010 non-redeemable prior to May 1, 1998; thereafter at 102% of principal amount in the twelve months beginning May 1, 1998, declining 1% per twelve month period to 100% on May 1, 2000. 1990 Series A Bonds maturing on May 1, 2020 non-redeemable prior to May 1, 2000; thereafter at 102% of principal amount in the twelve months beginning May 1, 2000, declining 1% per twelve month period to 100% on May 1, 2002
Sinking Fund Redemption	The Series A Bonds maturing May 1, 2020 are to be redeemed in various amounts at 100% of principal amount on each May 1 on and after May 1, 2011 to and including May 1, 2020 as set forth herein
Other Mandatory Redemption	At 100% of principal amount in certain events of taxability
Security	Pledge of revenues derived from the Loan Agreement and further secured by First Mortgage Bonds to be delivered from time to time to the Trustee by the Company
Alternative Minimum Tax	Applicable to both individuals and corporations. See "Tax Treatment" herein.

\$12,900,000
County of Mercer, Kentucky
Collateralized Solid Waste Disposal Facility Revenue Bonds
(Kentucky Utilities Company Project)
1990 Series A

INTRODUCTORY STATEMENT

This Official Statement is provided to furnish information in connection with the issuance and sale by the County of Mercer, Kentucky (the "County") of its Collateralized Solid Waste Disposal Facility Revenue Bonds (Kentucky Utilities Company Project) 1990 Series A, in the aggregate principal amount of \$12,900,000 (the "Series A Bonds") to be issued pursuant to an Indenture of Trust dated as of May 1, 1990 (the "Indenture") between the County and First Security National Bank and Trust Company, Lexington, Kentucky, as trustee (the "Trustee"). The Series A Bonds are being sold to J.J.B. Hilliard, W.L. Lyons, Inc. (the "Underwriter") and will be reoffered by the Underwriter.

The Series A Bonds are being issued by the County to finance the costs of the acquisition, construction, installation and equipping of certain solid waste disposal facilities to serve the E.W. Brown Generating Station (the "Brown Generating Station") in Mercer County owned and operated by Kentucky Utilities Company (the "Company"). These facilities are hereinafter referred to as the "Project" and are generally described herein under the caption "THE PROJECT."

Pursuant to a Loan Agreement by and between the Company and the County, dated as of May 1, 1990 (the "Loan Agreement"), proceeds from the sale of the Series A Bonds, other than accrued interest paid by the initial purchasers thereof, will be loaned by the County to the Company to provide the funds required to pay the costs of the Project.

Additional bonds (the "Additional Bonds") may be issued from time to time by the County under the Indenture for the purposes described herein under the caption "THE SERIES A BONDS—Additional Bonds." The term "Bonds" shall mean the Series A Bonds and any Additional Bonds issued pursuant to the Indenture.

For the purpose of further securing the Series A Bonds, the Company will issue and deliver from time to time to the Trustee the Company's First Mortgage Bonds, Pollution Control Series No. 7 (the "Series 7 First Mortgage Bonds"). Upon issuance of the Series A Bonds, the principal amount of Series 7 First Mortgage Bonds delivered by the Company to the Trustee plus the funds being held by the Trustee for the completion of the Project (which funds also will be pledged to secure the Series A Bonds) will equal the principal amount of the Series A Bonds. Thereafter, from time to time, the Company will deliver to the Trustee Series 7 First Mortgage Bonds in a principal amount equal to or in excess of any expenditures then to be made from the funds held by the Trustee for the completion of the Project. Upon the expenditure of all such proceeds so applied, the principal amount of Series 7 First Mortgage Bonds issued and delivered to the Trustee is required to equal the principal amount of the Series A Bonds. The Company will not be required to issue and deliver Series 7 First Mortgage Bonds in principal amounts greater than the outstanding principal amount of the Series A Bonds (see "THE LOAN AGREEMENT—Issuance and Delivery of First Mortgage Bonds").

In connection with the issuance of any Additional Bonds by the County, the Company will agree to issue and deliver from time to time to the Trustee additional first mortgage bonds (the "Additional First Mortgage Bonds") as security for the Additional Bonds issued by the County. The Series 7 First Mortgage Bonds issued to secure the Series A Bonds pursuant to the Indenture and any additional First Mortgage Bonds are hereinafter referred to as the "First Mortgage Bonds."

The First Mortgage Bonds will be issued under, and secured by, an Indenture of Mortgage dated as of May 1, 1947, as heretofore amended, between the Company and Continental Bank, National Association,

and M.J. Kruger, Chicago, Illinois, as trustee (collectively, the "First Mortgage Trustee"), and, in the case of the Series 7 First Mortgage Bonds, as to be further amended by a Supplemental Indenture dated May 1, 1990, (the "Supplemental Indenture"), between the Company and the First Mortgage Trustee, and, in the case of Additional First Mortgage Bonds, as to be further amended by a subsequent supplemental indenture or indentures providing for such Additional First Mortgage Bonds. The Indenture of Mortgage as so amended and as to be further amended by the Supplemental Indenture and any such subsequent supplemental indenture or indentures is hereinafter referred to as the "First Mortgage Indenture."

Brief descriptions of the County, the Project, the Series A Bonds, the Loan Agreement, the Indenture and the First Mortgage Bonds (including the Supplemental Indenture and the First Mortgage Indenture) are included in this Official Statement and a description of the Company is included as Appendix A, which incorporates certain documents by reference. Such descriptions do not purport to be comprehensive. All references herein to the Loan Agreement, the Indenture and the First Mortgage Bonds (including the Supplemental Indenture and the First Mortgage Indenture) are qualified in their entirety by reference to such documents, and references herein to the Series A Bonds are qualified in their entirety by reference to the form thereof included in the Indenture and the information with respect thereto included in the aforementioned documents. Copies of the forms of these documents, other than the First Mortgage Indenture, may be obtained during the period of the offering from the Underwriter. The First Mortgage Indenture is available for inspection at the office of the Company in Lexington, Kentucky, and at the corporate trust office of Continental Bank, National Association, one of the First Mortgage Trustees, in Chicago, Illinois.

THE COUNTY

The County is a public body corporate and politic duly created and existing as a county and political subdivision under the Constitution and laws of the Commonwealth of Kentucky. The County is authorized by Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act") to issue the Series A Bonds to finance the costs of the acquisition, construction, installation and equipping of the Project, to lend the proceeds from the sale of the Series A Bonds to the Company for such purposes and to enter into, and perform its respective obligations under, the Loan Agreement and the Indenture. The County, through its legislative body, the Fiscal Court, has adopted an Ordinance authorizing the issuance of the Series A Bonds described herein and the execution and delivery of the Loan Agreement and the Indenture.

THE PROJECT

The Project is under construction and consists of certain solid waste disposal facilities to be acquired, constructed and completed in connection with the Company's Brown Generating Station situated in Mercer County, Kentucky. Major components of the Project include the major reconstruction and expansion of the ash receiving facility, which receives, collects, stores, treats, processes and finally disposes of solid wastes produced by sulphur dioxide removal facilities and by electrostatic precipitators as well as bottom ash.

APPLICATION OF BOND PROCEEDS

The proceeds from the sale of the Series A Bonds (exclusive of accrued interest) will be used to pay the costs of acquiring, constructing, financing, installing and equipping the Project. Such proceeds (exclusive of accrued interest) are expected to be used as follows:

Cost of the Project	\$12,642,000
Compensation to Underwriter	190,275
Printing, legal and miscellaneous expense	67,725
Principal Amount of Series A Bond Issue	<u>\$12,900,000</u>

THE SERIES A BONDS

The Series A Bonds are special and limited obligations payable solely and only from the payments and other amounts to be received by the County under the Loan Agreement (with certain exceptions, including amounts received from payment of the Series 7 First Mortgage Bonds upon the occurrence of an event of default under the Loan Agreement or default in payment of the principal of, premium, if any, or interest on the Series A Bonds). The Series A Bonds and the interest thereon will not constitute an indebtedness or general obligation or a pledge of the faith and credit of the Commonwealth of Kentucky or any political subdivision thereof, including the County, and will not give rise to a pecuniary liability of the County or a charge against its general credit or taxing powers. Neither the Commonwealth of Kentucky nor any political subdivision thereof, including the County, shall be obligated to pay the principal of, premium, if any, or interest on the Series A Bonds or other costs incident thereto, except from the payments and amounts assigned therefor.

The Series A Bonds will be issued only as bonds fully registered as to payment of principal and interest without coupons in the denomination of \$5,000 or integral multiples thereof. The Series A Bonds will mature as to principal and bear interest at the rates per annum set forth on the cover page of this Official Statement. Interest on the Series A Bonds shall be payable on November 1, 1990 and thereafter semi-annually on May 1 and November 1 of each year by check or draft drawn upon the Trustee and mailed on the interest payment date by the Trustee to the person who is the registered owner thereof at the close of business of the Trustee on the 15th day (whether or not a business day) of the calendar month next preceding such interest payment date. Principal of and premium, if any, on the Series A Bonds are payable at the principal office of First Security National Bank and Trust Company, Lexington, Kentucky, as Trustee. The Series A Bonds are transferable at the principal corporate trust office of the Trustee in accordance with the provisions of the Indenture. Neither the County nor the Trustee is required to transfer or exchange any Series A Bond which has been called for redemption or to transfer or exchange any Series A Bonds for a period of up to 15 days preceding any designation of Series A Bonds for redemption.

Security

Payment of the principal of, premium, if any, and interest on the Series A Bonds will be secured by an assignment by the County to the Trustee of the County's interest in and to the Loan Agreement and all payments to be made pursuant thereto (other than certain indemnification and expense payments). Payment of the principal of premium, if any, and interest on the Series A Bonds will be further secured by a principal amount of Series 7 First Mortgage Bonds which when added to the unexpended proceeds of the Series A Bonds that are being held by the Trustee for the completion of the Project (which funds also will be pledged to secure the Series A Bonds) will equal or exceed the principal amount of Series A Bonds. Thereafter, from time to time, the Company will deliver to the Trustee Series 7 First Mortgage Bonds in a principal amount equal to or in excess of any expenditure then to be made from the funds held by the Trustee for the completion of the Project; provided that the Company shall not be required to execute and deliver Series 7 First Mortgage Bonds at any time if and to the extent the aggregate principal amount of Series 7 First Mortgage Bonds so delivered would exceed the aggregate principal amount of Series A Bonds outstanding at the time under the Indenture. Upon the expenditure of all the funds held by the Trustee for the completion of the Project, the principal amount of Series 7 First Mortgage Bonds delivered by the Company to the Trustee must equal the outstanding principal amount of the Series A Bonds. In the event of a default under the Loan Agreement or a default in payment of the principal of, premium, if any, or interest on the Series A Bonds, and upon receipt by the First Mortgage Trustee of a written redemption demand from the Trustee for redemption of the First Mortgage Bonds, the principal of the Series 7 First Mortgage Bonds, together with interest thereon at the same rate per annum borne by the Series A Bonds, will be payable in accordance with the Supplemental Indenture (see "THE FIRST MORTGAGE BONDS" and "THE LOAN AGREEMENT—Issuance and Delivery of First Mortgage Bonds").

Redemption Provisions

Optional Redemption

(A) The Series A Bonds maturing on May 1, 2010 are subject to redemption by the County at the direction of the Company in whole or in part by lot in such manner as the Trustee may determine, on any date on or after May 1, 1998, at the applicable redemption price, expressed as a percentage of principal amount, set forth below, plus interest accrued to the redemption date:

<u>Redemption Period</u>	<u>Optional Redemption Price</u>
May 1, 1998 to April 30, 1999	102%
May 1, 1999 to April 30, 2000	101%
May 1, 2000 and thereafter	100%

(B) The Series A Bonds maturing on May 1, 2020 are subject to redemption by the County at the direction of the Company, in whole or in part by lot in such manner as the Trustee may determine, on any date on or after May 1, 2000, at the applicable redemption price, expressed as a percentage of principal amount, set forth below, plus interest accrued to the redemption date:

<u>Redemption Period</u>	<u>Optional Redemption Price</u>
May 1, 2000 to April 30, 2001	102%
May 1, 2001 to April 30, 2002	101%
May 1, 2002 and thereafter	100%

Mandatory Sinking Fund Redemption

The Series A Bonds maturing May 1, 2020 are subject to mandatory redemption (by lot in such manner as the Trustee may determine) prior to maturity on each May 1, commencing May 1, 2011, in part, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date, from mandatory sinking fund installments which are required to be made in amounts sufficient to redeem on the dates shown below the principal amount of such Series A Bonds shown below:

<u>Date</u>	<u>Amount</u>
May 1, 2011	\$ 625,000
May 1, 2012	\$ 675,000
May 1, 2013	\$ 725,000
May 1, 2014	\$ 780,000
May 1, 2015	\$ 840,000
May 1, 2016	\$ 905,000
May 1, 2017	\$ 970,000
May 1, 2018	\$1,045,000
May 1, 2019	\$1,125,000
May 1, 2020 (maturity)	\$1,210,000

The principal amount of Series A Bonds maturing on May 1, 2020 to be redeemed pursuant to the sinking fund on any sinking fund redemption date may be reduced, at the option of the Company (provided that the Company shall have given to the Trustee at least 45 days' notice of the exercise of such option), by the principal amount of any Series A Bonds maturing on May 1, 2020 which (i) have been acquired and delivered to the Trustee by the Company no later than the 30th day of April preceding such sinking fund redemption date or (ii) have been redeemed (otherwise than through the operation of the sinking fund) and

cancelled by the Trustee and not theretofore applied to reduce the principal amount of the Series A Bonds maturing on May 1, 2020 to be redeemed pursuant to the sinking fund.

Extraordinary Optional Redemptions

The Series A Bonds shall be redeemed by the County in whole on any date at 100% of the principal amount thereof plus accrued interest to the redemption date upon the exercise by the Company of an option under the Loan Agreement to prepay the loan (see "THE LOAN AGREEMENT—Options to Prepay") if any of the following events shall have occurred:

- (a) If in the judgment of the Company, unreasonable burdens or excessive liabilities shall have been imposed upon the Company after the issuance of the Series A Bonds with respect to the Project or the operation thereof, including without limitation federal, state or other ad valorem property, income or other taxes not being imposed on May 1, 1990, other than ad valorem taxes levied upon privately owned property used for the same general purpose as the Project;
- (b) If the Project or a portion thereof or other property of the Company in connection with which the Project is used shall have been damaged or destroyed to such an extent so as, in the judgment of the Company, to render the Project or such other property of the Company unsatisfactory to the Company for its intended use, and such condition shall continue for a period of six months;
- (c) There shall have occurred a condemnation of all or substantially all of the Project or the taking by eminent domain of such use or control of the Project or other property of the Company in connection with which the Project is used so as to render, in the judgment of the Company, the Project or such other property of the Company unsatisfactory to the Company for its intended use;
- (d) In the event changes, which the Company cannot reasonably control, in the economic availability of materials, supplies, labor, equipment or other properties or things necessary for the efficient operation of the Brown Generating Station shall have occurred which, in the judgment of the Company, render the continued operation of any generating unit at such station uneconomical; or changes in circumstances after the issuance of the Series A Bonds, including but not limited to changes in clean air or other pollution control or solid waste disposal requirements, shall have occurred such that the Company shall determine that use of the Project is no longer required or desirable;
- (e) The Loan Agreement shall have become void or unenforceable or impossible of performance by reason of any changes in the Constitution of the Commonwealth of Kentucky or the Constitution of the United States of America or by reason of legislative or administrative action (whether state or federal) or any final decree, judgment or order of any court or administrative body, whether state or federal; or
- (f) A final order or decree of any court or administrative body that is issued after the issuance of the Series A Bonds shall require the Company to cease a substantial part of its operations at the Brown Generating Station to such extent that the Company will be prevented from carrying on its normal operations at such station for a period of six months.

The Company is required to give written notice to the Trustee of its election to redeem the Series A Bonds, such notice to be given within 180 days of the occurrence of any of the events set forth above. None of the events described in clauses (a) through (f) above exists as of the date of this Official Statement.

The Series A Bonds also are subject to redemption by the County in whole or in part on any date at 100% of the principal amount thereof plus accrued interest to the redemption date if so elected by the Company pursuant to Section 6.1 of the Loan Agreement, in the event of damage, destruction or condemnation of all or a portion of the Project and receipt by the County, the Company or the First Mortgage Trustee of net proceeds from insurance or any condemnation award in connection therewith (see "THE LOAN AGREEMENT—Maintenance; Damage, Destruction and Condemnation").

Mandatory Redemption

The Series A Bonds shall be redeemed by the County in whole or in part not more than 180 days after a final determination as hereinafter described at 100% of the principal amount thereof plus accrued interest to the redemption date if the Company is required to prepay the loan (see "THE LOAN AGREEMENT—Obligations to Prepay") after a final determination by a court of competent jurisdiction or an administrative agency to the effect that as a result of a failure by the Company to perform or observe any covenant, agreement or representation contained in the Loan Agreement, the interest payable on the Series A Bonds is included for federal income tax purposes in the gross income of any bondholder (other than any bondholder who is a "substantial user" of the Project or a "related person" as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code")). Redemption is not obligatory unless the Company has participated in the proceeding which resulted in such determination, either directly or through a bondholder, to the degree the Company deems sufficient and no determination will be considered final until the conclusion of any appellate review or the expiration of the time for seeking such review. Further, no redemption obligation will arise unless such bondholder permits the Company to participate in such proceedings to the degree the Company deems sufficient and gives the Company prompt written notice of the commencement of such proceedings. The Series A Bonds will be redeemed in such principal amount that the interest payable on the Series A Bonds remaining outstanding after such redemption would not be so included in the gross income of any bondholder, other than a bondholder who is a "substantial user" of the Project or a "related Person" as such terms are used in Section 147(a) of the Code.

Until the determination described above is final, no Series A Bond is subject to redemption. Such determination is not considered final unless the Company has been afforded substantial rights to contest the determination. Should the Company be denied such rights to contest, the Series A Bonds are not subject to redemption.

Furthermore, if the Internal Revenue Service or a court of competent jurisdiction determines that the interest paid or to be paid on any Series A Bond (except to a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code) is or was includible in the gross income of the Bondholder for federal income tax purposes for reasons other than as a result of a failure by the Company to perform or observe any of its covenants, agreements or representations in the Loan Agreement, the Series A Bonds are not subject to redemption. In such circumstances, Bondholders would continue to hold their Series A Bonds, receiving principal and interest at the rates stated on the Cover page hereof as and when due, but would be required to include such interest payments in gross income for federal income tax purposes. ALSO, IF THE LIEN OF THE INDENTURE IS DISCHARGED PRIOR TO THE OCCURRENCE OF A FINAL DETERMINATION OF TAXABILITY, SUCH SERIES A BONDS WILL NOT BE REDEEMED AS DESCRIBED HEREIN.

General Redemption Terms

Notice of the call for redemption, identifying the Series A Bonds or portions thereof to be redeemed, will be given by mailing a redemption notice by first class mail to the registered owners not less than 30 days prior to the redemption date. Failure to give any such notice by mailing or any defect therein in respect of any Series A Bond will not, however, affect the validity of any proceedings for the redemption of any other Series A Bonds.

No further interest shall accrue on the principal of any Series A Bond called for redemption after the redemption date if funds sufficient for such redemption have been deposited with the Trustee. Upon certain terms and conditions specified in the Indenture, the Series A Bonds or any portion thereof shall be deemed to be paid, and the assignment of payments made in the Indenture for the security of such Bonds and the security provided by the Series A First Mortgage Bonds may be discharged, upon the making of provision for payment through the deposit with the Trustee of cash or securities sufficient to provide amounts to pay when due the principal of, premium, if any, and interest on such Bonds (see "THE INDENTURE—Discharge of Lien").

Additional Bonds

So long as no event of default is then existing under the Loan Agreement or the Indenture, one or more series of Additional Bonds may be authenticated and delivered to provide funds for any one or more of the following: (i) the costs of the Project, including the cost of completion thereof, (ii) the costs of making such substitutions, additions, modifications or improvements to the Project for the control and abatement of solid wastes as the Company may deem necessary or desirable, (iii) the costs of redeeming or refunding at or prior to maturity any Bonds, to the extent permitted by law, or (iv) the costs of issuance of Additional Bonds and other related costs, to the extent permitted by law. Such Additional Bonds shall be payable solely from the payments and other amounts to be received by the County under the Loan Agreement with certain exceptions, including amounts received from payment of the First Mortgage Bonds upon the occurrence of an event of default under the Loan Agreement or default in payment of the principal of, premium, if any, or interest on the Bonds. Payments received by the County under the Loan Agreement will be increased for such purpose. Each series of Additional Bonds shall be authorized by an amendment to the Loan Agreement and a supplement to the Indenture providing, where appropriate, that the definition of the Project shall include any additional solid waste disposal facilities being financed by the Additional Bonds.

The Company will deliver to the Trustee Additional First Mortgage Bonds as security for the Additional Bonds either prior to or contemporaneously with the issuance of each series of Additional Bonds, in an aggregate principal amount equal to the aggregate principal amount of the Additional Bonds or, subsequent to the issuance of the Additional Bonds and at the time proceeds from the sale of Additional Bonds are actually dispensed for the benefit of the Company, in principal amounts at least equal to the amount actually dispensed for the benefit of the Company. Each series of Additional First Mortgage Bonds will correspond in respect of maturity date or dates to the Additional Bonds being issued. Each series of Additional Bonds shall rank pari passu and shall be equally and ratably secured under the Indenture with all prior or subsequent series of Bonds to be issued thereunder, without preference, priority or distinction of any Bonds over any other, except insofar as a sinking fund or similar fund established in accordance with the provisions of the Indenture may afford additional security for Bonds of any series.

THE LOAN AGREEMENT

Issuance of the Bonds

The Company will agree to acquire, construct, install and equip the Project in accordance with plans and specifications, as amended from time to time, filed with the Trustee. The Project will be the property of the Company subject to the lien of the First Mortgage Indenture. Subject to the limitations described under the captions "THE LOAN AGREEMENT—Assignment, Merger and Release of Obligations of the Company", the Company will be permitted to sell or otherwise dispose of all or any portion of the Project, provided that such sale or disposition shall not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

The Company will agree to use its best efforts to cause the construction of the Project to be completed by the date stipulated in the Loan Agreement, or as soon thereafter as may be practicable, but if for any reason the Project is not completed by such date there shall be no resulting liability on the part of the Company and no diminution in or postponement of the payments to be made by the Company pursuant to the Loan Agreement.

The County will issue the Series A Bonds to provide funds to loan to the Company for payment of the costs of the acquisition, construction, installation and equipping of the Project and will deposit the proceeds from the sale of the Series A Bonds with the Trustee. Pursuant to the Indenture there have been created the Rebate Fund, the Bond Fund and the Construction Fund. A sum equal to accrued and capitalized interest on the Series A Bonds to be paid by the initial purchasers will be deposited in the Bond Fund and the balance

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

TESTIMONY IN THE MATTER OF THE)	
APPLICATION OF KENTUCKY UTILITIES)	
COMPANY FOR AN ORDER)	Case No.
AUTHORIZING THE ISSUANCE OF)	
SECURITIES AND ASSUMPTION OF)	
OBLIGATIONS)	

TESTIMONY OF CHARLES A. MARKEL
ON BEHALF OF KENTUCKY UTILITIES COMPANY

1 Q State your name and position with Kentucky Utilities Company ("KU" or "Company").

2 A Charles A. Markel, Treasurer.

3

4 Q How long have you been with the Company, and give a brief account of your work
5 experience?

6 A I have been employed by the Company since May 4, 1998. As Treasurer, my
7 responsibilities deal primarily with Company financial matters. I am also Treasurer of
8 Louisville Gas and Electric Company. As Treasurer of Louisville Gas and Electric
9 Company and Kentucky Utilities Company, I have participated in numerous public
10 financings.

11

12 Q Briefly describe your educational background.

13 A I received a Bachelor of Arts degree with a major in Business Administration from Grove
14 City College, Grove City, Pennsylvania in 1969. In 1974, I received a Masters in Business
15 Administration from Tulane University, New Orleans, Louisiana.

16

1 Q Are you familiar with the Application to this Commission for authority to enter into one or
2 more new loan agreements in the aggregate principal amount not to exceed \$13,400,000 (the
3 "New Loan Agreements") and the assumption of related obligations, including one or more
4 guaranties guaranteeing repayment of all or any part of the obligations under refunding
5 bonds to be issued by Mercer County, all as more fully explained herein, and are you
6 familiar with the Exhibits to the Application?

7 A Yes, I am. I am also familiar with the monthly financial and operating reports which are
8 filed with the Commission.

9

10 Q Were the Exhibits prepared by you or under your supervision?

11 A Yes, the Exhibits were prepared under my supervision.

12

13 Q Do you adopt the Application and Exhibits as part of this testimony?

14 A Yes.

15

16 Q Have all filings required by the Kentucky Administrative Regulations been included with
17 this application?

18 A The Application, including Exhibits, contains the information required by the regulations, or
19 includes references to the previous filing of required information.

20

21 Q Would you briefly describe the proposed financing?

22 A The proposed financing is not related to the Company's construction program nor its need
23 for external funds. The proposed financing relates to the refinancing of one series of Mercer

County Pollution Control Bonds with the proceeds of one or more series of new pollution control revenue bonds (the "Mercer County Refunding Bonds") .

Q Would you briefly describe the issuance of the Mercer County Refunding Bonds?

A The Company proposes that Mercer County issue Refunding Bonds in connection with the refinancing of one outstanding series of Pollution Control Revenue Bonds, consisting of the following:

(i) the \$4,000,000 principal amount of Mercer County, Kentucky, 7.375% Pollution Control Revenue Bonds, 1990 Series A Bonds (Kentucky Utilities Company Project), due May 1, 2010 (the "1990 Mercer Bonds");

(ii) the \$8,900,000 principal amount of Mercer County, Kentucky, 7.60% Pollution Control Revenue Bonds, 1990 Series A Bonds (Kentucky Utilities Company Project), due May 1, 2020 (the "1990 Mercer Bonds due May 1, 2020" and, together with the 1990 Mercer Bonds due May 1, 2010, the "Existing Mercer County Bonds").

The Existing Mercer County Bonds are herein collectively referred to as the "Existing Bonds."

At the Company's request, Mercer County issued the Existing Bonds to help finance certain pollution control facilities of the Company. The Existing Bonds were subject to Commission Orders in the following Cases and are subject to redemption, upon at least thirty days' previous notice, at the following times and at the following prices (expressed as a percentage of their principal amount), plus accrued interest:

	<u>Case</u>	<u>Redemption Period</u>	<u>Redemption Price</u>
1990 Mercer Bonds due 5/1/2010	90-131	May 1, 2000 Through May 1, 2010	100.00%
1990 Mercer Bonds due 5/1/2020	90-131	May 1, 2000 Through April 30, 2001	102.00%

1 To effect the refinancing, Mercer County would issue one or more series of the
2 Mercer County Refunding Bonds in an aggregate principal amount not to exceed \$13.4
3 million. The total principal amount of the Refunding Bonds that are issued would be
4 sufficient to pay the principal of the Existing Bonds to be redeemed and, as described below,
5 the redemption premium and issuance costs. The proceeds from the sale of the Refunding
6 Bonds would be loaned to the Company under one or more loan agreements and used to
7 redeem the Existing Bonds. Under such loan agreements the Company will be obligated to
8 make loan payments sufficient to pay the principal of, premium, if any, and interest on such
9 Refunding Bonds.

10
11 Q. The Existing Mercer County Bonds totaled \$12.9 million. Why is KU requesting authority
12 to redeem these bonds with Refunding Bonds of \$13.4 million?

13 A. In addition to refunding the Existing Mercer County Bonds, KU must pay \$178,000 for the
14 redemption premium on the 1990 Mercer Bonds due May 1, 2020, and approximately
15 \$322,000 for the costs of issuance of the refunding bonds, for a total of \$500,000. In order
16 to obtain funds for these purposes at the lowest cost, KU has filed a request for the
17 allocation of \$500,000 of Year 2000 private activity bond cap with the Kentucky Private
18 Activity Allocation Bond Committee to enable such costs to be financed on a tax-exempt
19 basis. In the event the application for state cap allocation is approved, refunding bonds in
20 the amount not to exceed \$13,400,000 will be issued by Mercer County. If the allocation
21 request is not approved, refunding bonds in the amount not to exceed \$12,900,000 will be
22 issued by Mercer County.

1 Q Why are the Existing Bonds to be refunded?

2 A The primary purposes of the refunding of a series of Existing Bonds are to reduce the
3 Company's cost of debt and extend the maturity for these bonds, as currently allowed under
4 existing federal tax law. This will benefit the Company and its ratepayers by extending the
5 ability to use low-cost, tax-exempt debt, as opposed to higher cost taxable debt or other
6 funding sources in the future. In addition, interest rates are currently at levels that would
7 allow the Company to extend the maturities while also decreasing its cost of capital, thereby
8 reducing its cost of debt and gaining the advantage of tax-exempt rates for a much longer
9 period of time.

10
11 Q Will you explain your ability to extend the maturity?

12 A The Company's ability to extend the maturities in connection with the proposed refunding is
13 based on a combination of factors. At the federal level, Section 1313(a) of the Tax Reform
14 Act of 1986 provides for the current refunding of outstanding tax-exempt bonds so long as,
15 among other things, the weighted average maturity of the refunding bond issue does not
16 exceed 120% of the weighted average reasonably expected economic life of the facilities in
17 question (the "120% Rule"). This limitation on the maturities of "private activity bonds"
18 was originally set forth as part of the Tax Equity and Fiscal Responsibility Act of 1982
19 ("TEFRA"). Pursuant to TEFRA, the economic life of bond financed facilities (for purposes
20 of establishing bond maturities) is generally to be determined through a case-by-case
21 analysis of the useful life of such facilities. In addition, administrative guidelines for
22 TEFRA provide a "safe harbor" to determine economic lives by use of midpoint lives under
23 the ADR (tax depreciation) System. Furthermore, under federal tax law if multiple bond

1 issues are offered and sold at the same time, pursuant to a common plan of financing, using
2 a single official statement, the issues are deemed to constitute a single issue of securities and
3 allow for the application of the 120% Rule on a combined basis. Regardless of the useful
4 economic life attributable to underlying assets, however, Kentucky law imposes a 30-year
5 maturity limit on pollution control revenue bonds.

6 Pursuant to the above provisions and guidelines, the Company has been working on
7 a comprehensive analysis of the remaining useful lives of the pollution control facilities
8 underlying the Existing Bonds. This analysis has included a detailed review of property
9 records, engineering/depreciation studies, and the application of certain provisions of federal
10 tax principles noted above, including the safe harbor provisions of TEFRA and
11 consideration of a combined refunding. Although the study is continuing, it appears that, as
12 part of this refunding, the Company has the opportunity to significantly extend the
13 maturities of the Existing Bonds.

14
15 Q Are there other reasons to effect the refinancing of the Existing Bonds?

16 A Yes. Current interest rates will allow the new Refunding Bonds to be issued initially at
17 lower rates than the interest rates on the Existing Bonds. Any such interest savings, coupled
18 with the extension of the maturities enabling the Company to retain the use of lower-rate
19 tax-exempt financing for a longer period of time, will produce long-term interest expense
20 savings. In summary, the Company will be able to provide tax-exempt financing for our
21 customers over a longer period of time and reduce the Company's cost of debt over the
22 extended period.

1 Q When can the Refunding Bonds be issued?

2 A The 1990 Mercer Bonds become subject to redemption on May 1, 2000. In order for the
3 Refunding Bonds to be tax-exempt under the Tax Reform Act of 1986, the Refunding
4 Bonds must be issued on or before the redemption dates set for the Existing Bonds, provided
5 that such issuance not be more than 90 days prior to the respective redemption date.
6

7 Q At what price would the Existing Bonds be redeemed?

8 A As indicated in the table on page 3 of this testimony, the Company could redeem the 1990
9 Mercer Bonds due May 1, 2020, at a price of 102.00% of the principal amount of the bonds,
10 and the 1990 Mercer Bonds due May 1, 2010 at a price of 100% of the principal amount of
11 the bonds. With the extension of maturities and despite that premium, the Company can
12 achieve positive net present value savings on this portion of its long-term debt if the
13 Refunding Bonds are issued at interest rates similar to those that now prevail in the market
14 (see the net present value savings analysis attached as Exhibit 3 to the Application). The
15 present value savings result primarily from issuing Refunding Bonds at effective interest
16 rates that are significantly lower than the Existing Bonds. In addition, the extended
17 utilization of tax-exempt debt, as opposed to higher cost alternative taxable debt in the future
18 (replacement capital for financing required beyond the current maturities of the Existing
19 Bonds), may contribute to present value savings as well. If issued as fixed rate bonds in
20 today's market for fixed rate debt securities, we expect that the Refunding Bonds would bear
21 an interest rate between 6.30% and 6.50%. While the rate at which such Refunding Bonds
22 ultimately are issued may vary from this estimate, we do not expect that the initial rate will

1 exceed 7.00% unless serious disruptions in the capital markets occur, or the Company
2 experiences adverse circumstances or events.

3
4 Q What would be the structure of the Refunding Bonds?

5 A The Company intends that the Refunding Bonds will have a maturity of up to 30 years,
6 similar to issues this Commission has approved in the past. To the extent the Refunding
7 Bonds bear a fixed rate of interest, the structure of this transaction will be very similar to
8 that of other issues of pollution control revenue bonds. Because of the spread between long-
9 term interest rates and short-term rates though, the Company is also contemplating having
10 all or a portion of the Refunding Bonds issued initially with a variable interest rate. These
11 Bonds could be converted to a fixed rate at a later date selected by the Company, thereby
12 giving the Company the flexibility to optimally take advantage of current market conditions
13 affecting long-term interest rates. To the extent variable rate bonds are issued, the
14 documentation would be similar to Kentucky Utilities Company's successful 1994 Series A
15 Carroll County Bonds.

16
17 Q If a portion of the Refunding Bonds initially has a variable rate of interest, wouldn't the
18 Company's exposure to interest rate risk be higher?

19 A If the Company issued a portion of Refunding Bonds with a variable interest rate, our
20 exposure to interest rate movements would increase. As of October 31, 1999, the Company
21 had variable rate debt outstanding totaling only \$54 million, or 10% of total debt. Including
22 the effects of interest rate hedging arrangements currently in place, the Company's variable
23 rate debt totals \$107 million, or 19.6% of total debt. Although somewhat higher if a portion

1 of the Refunding Bonds are issued with a variable rate of interest, the Company would
2 expect these ratios to be comparable to levels at several "Aa2" utilities reviewed by the
3 Company. However, the significant cost benefit the Company could achieve by using
4 variable rate debt would offset the interest rate exposure. Furthermore, we will also
5 consider the continued use of interest rate hedging arrangements to actively manage and
6 mitigate potential adverse affects from this rate exposure.

7
8 Q Could you briefly describe the interest rate hedging mechanisms the Company is
9 considering in connection with the Refunding Bonds?

10 A Innovations in the areas of interest rate hedging and risk management have resulted in
11 several hedging arrangements and techniques available to companies to take advantage of
12 opportunities to obtain low-cost funds as well as to hedge variable interest rate risk. As
13 described below, interest rate swaps can be used in conjunction with variable rate
14 obligations to create a fixed rate security and limit the risk associated with rising interest
15 rates.

16 An interest rate swap is a contract between two parties to exchange interest
17 payments, without the exchange or obligation of any principal amount. The hypothetical
18 company initiating the swap in Exhibit 1 has issued a variable rate security to the public and
19 is therefore making variable interest payments to them. This is indicated by the downward
20 pointing arrow. The company then enters into a swap agreement with a counterparty
21 whereby the company periodically pays a cash flow determined by a fixed interest rate and
22 receives a cash flow determined by a floating interest rate. These payments are depicted by
23 the horizontal arrows. The swap counterparty receives the fixed rate payment and pays the

1 floating rate payment based on any of a number of floating rate indices. Thus the
2 hypothetical company's variable interest rate payment will be approximately offset by its
3 receipt of variable rate cash payments from the counterparty, leaving the company with its
4 fixed swap payment as its only capital cost. In today's market, the Company may be able to
5 create a lower cost fixed rate debt security by issuing variable rate bonds and simultaneously
6 entering into an interest rate swap than if a fixed rate security were initially issued. Through
7 the use of an interest rate swap, the Company can choose to fix the interest rate for virtually
8 any term ranging typically from one to thirty years.

9 Other commonly used hedge instruments include interest rate caps and collars.
10 An interest rate cap is an agreement between a company and a financial institution or
11 other "counterparty" that provides an opportunity to take advantage of future declines in
12 interest rates while establishing a maximum rate on the underlying variable rate
13 obligation. A cap sets the maximum rate that a company may be required to pay on a
14 given security. If rates rise above the ceiling, the counterparty compensates the company
15 for the difference between the actual market rate and the ceiling rate. An interest rate
16 collar is a simultaneous purchase of an interest rate cap and sale of an interest rate floor,
17 which is an arrangement requiring the seller to make payments to the floor purchaser in
18 the event interest rates fall below the pre-established floor rate. A collar provides a band
19 for interest to float between a maximum ceiling and a minimum floor. Collars are
20 similar to caps in that the purchaser is protected from increases in interest rates above the
21 ceiling rate level. However, if rates fall below the floor, the borrower must compensate
22 the counterparty.

1 Q If a portion of the Refunding Bonds initially have a variable rate of interest, how will the
2 interest rate be set?

1 A We expect that the interest rate generally will be set as follows. On the date of the initial
2 delivery of any variable rate Refunding Bonds, the interest rate or rates (the "Variable Rate")
3 and effective term or terms (the "Variable Period"), will be set by negotiations among
4 prospective investors (based on market conditions), the Underwriters and the Company. At
5 its option, the Company may advise the Remarketing Agent (which initially will be one or
6 more of the Underwriters) of the duration and/or specific timing of interest payments or
7 desired mix of Variable Periods, which may be a day, a week, a month, 270 days or such
8 other period selected by the Company and consistent with market supply and demand. At
9 the end of each Variable Period, the Remarketing Agent will then remarket the variable rate
10 bonds at a rate or rates that will enable the Remarketing Agent to sell the Bonds at a price
11 equal to 100% of principal amount. Holders of the Bonds at the end of each Variable Period
12 may have the option of keeping their Bonds bearing the new interest rate or tendering them
13 for purchase at a price equal to 100% of principal amount and, to the extent Bonds are
14 tendered, the Remarketing Agent will seek to resell the tendered bonds at Variable Rates
15 consistent with maintaining a price equal to 100% of principal amount and the proceeds
16 from such sale will be used to pay the holders who tendered their Bonds. This process will
17 continue to be repeated until the Bonds are converted to a fixed rate of interest or they
18 mature.

19
20 Q The Application requests authority for the Company to enter into various credit facilities
21 for purposes of liquidity in connection with the Refunding Bonds. Why are these
22 necessary?

1 A As indicated previously, holders of variable rate Refunding Bonds may have the right to
2 tender their Bonds for payment. The funds for such payments are expected to come from
3 the sale proceeds that the Remarketing Agent receives upon selling such Bonds. Yet, if
4 the Remarketing Agent cannot resell the Bonds, the Company will be required to pay for
5 the tendered Bonds. The credit facilities are designed to assure holders of the variable
6 rate Refunding Bonds that there will be available at all times sufficient funds to pay the
7 purchase price of the Bonds upon tender. The Company has been advised by the
8 potential underwriters of the Refunding Bonds that, despite the financial strength of the
9 Company, such credit facilities could be helpful, under certain market conditions, in
10 order to effectively market the Bonds.

11
12 Q What are the current interest rates for a 30-year tax-exempt bond with a "Aa2" rating as
13 compared to variable rate tax-exempt bond with a "Aa2" rating where the interest rate is
14 reset in 30-day intervals?

15 A For such long-term tax-exempt bonds, the interest rates today are approximately 6.3% to
16 6.5%, while for the 30-day variable rate tax-exempt bonds the interest rates today are
17 approximately 3.5%.

18
19 Q Would the Company have the option of redeeming the Refunding Bonds?

20 A Yes, tax-exempt pollution control bonds typically can be redeemed prior to maturity. There
21 generally are some restrictions, however. These bonds usually cannot be redeemed for a
22 specified period of time after issuance, usually ten years, depending on other terms. The
23 purpose of this restriction is to protect the investor for a period of time from a sudden

1 decline in interest rates. Following this period, the Company may cause the redemption of
2 the issue at a premium.

3 If variable-rate Refunding Bonds are issued, such Bonds are normally redeemable at
4 par on the first day of each month if issued in a daily, weekly or monthly mode and are
5 redeemable upon each interest readjustment date (i.e. end of respective Variable Period) in
6 the case of obligations having maturities ranging from 30 to 270 days.

7
8 Q Mr. Markel, how would the issuance of the bonds included in the Application affect the
9 Company's capital structure?

10 A Capitalization ratios at October 31, 1999 were: Debt, including short term debt, 44.6%,
11 Preferred Stock 3.4%, and Common Equity 52%. Since the Refunding Bonds will be issued
12 for the same principal amount as the Existing Bonds, capitalization ratios would not be
13 affected. If KU's application to the Kentucky State Cap Allocation committee for \$0.5
14 million is approved, debt would increase by \$0.5 million but would not noticeably affect the
15 capitalization ratios.

16
17 Q Mr. Markel, what is your time schedule regarding the issuance of these securities?

18 A As indicated previously, interest rates are at relatively low levels. In order to take advantage
19 of these levels and any further improvement in the capital markets the Company plans for
20 these securities to be issued as early as March 2000. This schedule could be affected,
21 however, by conditions of the debt markets. To achieve the lowest cost of money, it is
22 important for us to be able to react quickly. Therefore, we respectfully request that the

- 1 Commission expeditiously process this Application to afford the Company maximum
- 2 flexibility in connection with this financing.

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)


CHARLES A. MARKEL

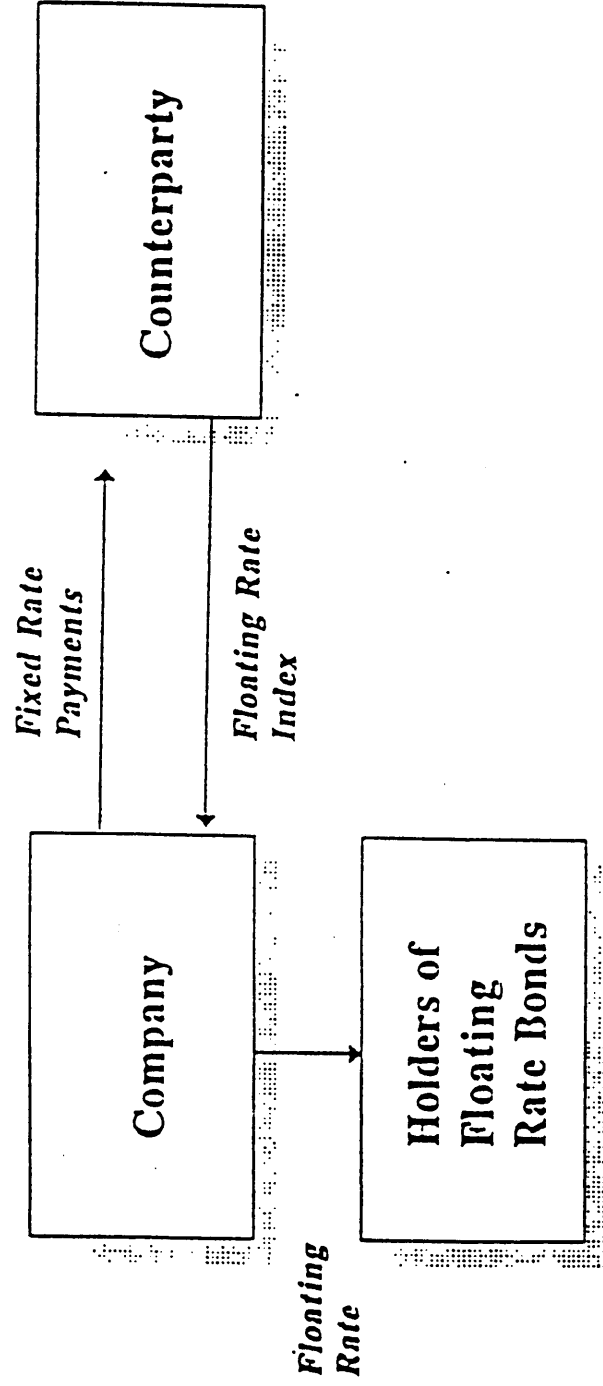
Ronda J. Anderson (SEAL)
NOTARY PUBLIC
Kentucky, State at Large

8-31-2003

Exhibit 1

How An Interest Rate Swap Works

Floating-to-Fixed



- Two organizations (referred to as counterparties) agree to exchange different streams of payments over time.
- Payments are determined by applying the respective interest rates to an agreed upon amount, referred to as the "notional principal amount."
- There is no exchange of principal amounts, i.e., an interest rate swap is not an investment or a borrowing.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY UTILITIES)
COMPANY FOR AN ORDER AUTHORIZING) CASE NO. 2000-052
THE ISSUANCE OF SECURITIES AND THE)
ASSUMPTION OF OBLIGATIONS)

O R D E R

IT IS ORDERED that Kentucky Utilities Company ("KU") shall file with the Commission the original and five copies of the following information, with a copy to all parties of record. The information requested herein is due no later than 10 days from the date of this Order. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the person who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been previously provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. Refer to the testimony of Charles A. Markel, page 13, lines 15 to 17. Provide the source or sources used to document the fixed interest rates of 6.3 percent to 6.5 percent and the variable rate of 3.5 percent.
2. Refer to Exhibit 3, page 1 of the application. Provide an explanation of how the variable refunding rate of 3.75 percent was determined, along with the supporting documentation. Also, explain what the "BMA" index is and why it is used instead of any other available indices.
3. Refer to Exhibit 2, page 4, item (g). The excerpt from the minutes of the KU Board of Directors Meeting reflects that, "each such contract shall be entered into, and Existing Mercer County Solid Waste Disposal Bonds refinanced with proceeds from the sale of Refunding Bonds pursuant to such contract, only if at the time such contract is executed on behalf of the Company, such refinancing would result in interest savings for the company." Provide an explanation and supporting calculations of the maximum interest rate that could be obtained and still result in net savings to KU.
4. Provide an explanation and supporting documentation of the assumptions and calculations used in the debt refunding analyses provided in Exhibit 3, pages 2 and 3. Include in the discussion an explanation of why the Interest rate of 3.75 percent was assumed and applied to each year over the 20 and 30 year lives of the bonds instead of a mix of variable and fixed rates.
5. KU stated in its application that it may enter into one or more liquidity facilities ("Current Facility") with a bank or banks in order to replace its existing Current Facility with one that contains terms and conditions more favorable to KU. Explain why KU expects to obtain more favorable terms and conditions now than it obtained when

the original bonds were first issued. Provide specific examples of the areas in which KU expects it could obtain more favorable terms and conditions.

Done at Frankfort, Kentucky, this 23rd day of February, 2000.

By the Commission

ATTEST:

Executive Director

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES)	
COMPANY FOR AN ORDER AUTHORIZING)	CASE NO. 2000-052
THE ISSUANCE OF SECURITIES AND THE)	
ASSUMPTION OF OBLIGATIONS)	

RESPONSE TO
PUBLIC SERVICE COMMISSION'S ORDER
DATED FEBRUARY 23, 2000

FILED: MARCH 3, 2000

KENTUCKY UTILITIES COMPANY**CASE NO. 2000-052****Response to Commission's Order
Dated February 23, 2000****Question No. 1****Responding Witness: Charles A. Markel**

Q-1. Refer to the testimony of Charles A. Markel, page 13, lines 15 to 17. Provide the source or sources used to document the fixed interest rates of 6.3 percent to 6.5 percent and the variable rate of 3.5 percent.

A1. The fixed interest rates of 6.3% to 6.5% described in the testimony are based on discussions with our underwriter, Morgan Stanley Dean Witter. At the time of the application, our underwriter advised us that similar rated utilities were issuing long-term, fixed rate bonds in the low to mid 6% range. Another guide used for estimating fixed rates that we used is the Bond Buyer Weekly Index, which is an index of similar rated fixed rate municipal bonds (see Exhibit 1).

The estimated variable rate of 3.5% described in the testimony is derived from the "BMA Municipal Swap Index", which is a widely used index based upon the weekly interest rate resets of high-quality weekly adjustable tax-exempt variable rate demand bonds. The five year-average of the BMA index is 3.53%, and the ten year average is 3.57% (Exhibit 2 and 3). At the time the application was filed, the BMA index was in the low 3% range.

KENTUCKY UTILITIES COMPANY**CASE NO. 2000-052****Response to Commission's Order
Dated February 23, 2000****Question No. 2****Responding Witness: Charles A. Markel**

- Q2. Refer to Exhibit 3, page 1 of the application. Provide an explanation of how the variable refunding rate of 3.75 percent was determined, along with the supporting documentation. Also, explain what the "BMA" index is and why it is used instead of any other available indices.
- A2. The variable rate funding rate of 3.75% was determined based on the ten year average of the BMA Index of approximately 3.50%, plus additional costs related to remarketing and administrative fees. The BMA Index, described above, is the most widely followed and quoted index of tax-exempt variable rate bonds and is an accurate proxy for estimating the future rates for new KU variable rate bonds. The other key index is the JJ Kenny Index, which yields similar results. This is evidenced by the actual interest rates achieved for 1999 on Kentucky Utilities' 1994 Series A Carroll County Variable Rate Bonds, which averaged 3.35% for 1999 (see Exhibit 4). This closely approximates the BMA Index average for 1999, which was 3.29% (see Exhibit 5).

KENTUCKY UTILITIES COMPANY**CASE NO. 2000-052****Response to Commission's Order
Dated February 23, 2000****Question No. 3****Responding Witness: Charles A. Markel**

Q3. Refer to Exhibit 2, page 4, Item (f). The excerpt from the minutes of the KU Board of Directors Meeting reflects that "each such contract shall be entered into, and Existing Pollution Control Bonds refinanced with proceeds from the sale of Refunding Pollution Control Bonds pursuant to such contract, only if at the time such contract is executed on behalf of the Company, such refinancing would result in interest savings for the company." Provide an explanation and supporting calculations of the maximum interest rate that could be obtained and still result in net savings to KU.

A3. The maximum interest rates that could be obtained and still result in net savings to KU are as follows:

\$4,000,000 series due 2010: the breakeven interest rate on this series is 7.78%, which is slightly higher than the current rate of 7.375%. The supporting calculations are outlined in Exhibit 6. This breakeven rate is determined by calculating the interest rate that produces savings, on a net present value basis, of zero. The discount rate assumed in the net present value calculation is the after-tax interest rate. The discount factor in this case is 4.64% ($7.78\% \times (1-.4036)$). The analysis compares two scenarios:

Scenario One (Existing Capitalization): the current 7.375% fixed rate bonds remain outstanding until maturity (10 years). Because new tax-exempt debt can no longer be issued for pollution control facilities, we would have to repay the maturing bonds with new taxable debt. The rate on the taxable fixed rate debt to be issued ten years from now is assumed to be 8.90%, which is based on the current Standard and Poor's A rated 10 year Utility Bond Index (see Exhibit 7). This index was approximately 7.90% when the Application was prepared. We then added 1% to represent the future uncertainty of an upward movement in rates.

Scenario Two (Proposed Refunding): the current 7.375% fixed rate tax-exempt bonds are refinanced with variable rate tax-exempt bonds that average 3.75%. The current 10 year maturity is extended to 20 years

pursuant to federal tax laws that allow the maturities of tax-exempt refundings to be as long as 120% of the expected economic life of the facilities. Our preliminary analysis has determined that the maturity would be 20 years.

Because scenario one requires that higher cost taxable debt be issued for the final 10 years of the 20-year period being analyzed, the breakeven interest rate is slightly higher than the current fixed rate. Another factor contributing to the slightly higher breakeven rate is that there is not a call premium for this series of bonds, thus reducing the up-front costs of refinancing.

\$8,900,000 series due 2020: the breakeven interest rate on this series is 7.56%, which is very close to the current rate of 7.60%. The supporting calculations are outlined in Exhibit 8. This breakeven rate is determined by calculating the interest rate that produces savings, on a net present value basis, of zero. The discount rate assumed in the net present value calculation is the after-tax interest rate. The discount factor in this case is 4.51% ($7.56\% \times (1-.4036)$). The analysis compares two scenarios:

Scenario One (Existing Capitalization): the current 7.60% fixed rate bonds remain outstanding until maturity (20 years). Because new tax-exempt debt can no longer be issued for pollution control facilities, we would have to repay the maturing bonds with new taxable debt. The rate on the taxable fixed rate debt to be issued ten years from now is assumed to be 8.90%, which is based on the current Standard and Poor's A rated 10 year Utility Bond Index (see Exhibit 7). This index was approximately 7.90% when the Application was prepared. We then added 1% to represent the future uncertainty of an upward movement in rates.

Scenario Two (Proposed Refunding): the current 7.60% fixed rate tax-exempt bonds are refinanced with variable rate tax-exempt bonds that average 3.75%. The current 20 year maturity is extended to 30 years pursuant to federal tax laws that allow the maturities of tax-exempt refundings to be as long as 120% of the expected economic life of the facilities. Our preliminary analysis has determined that the maturity would be 30 years.

Because scenario one requires that higher cost taxable debt be issued for the final 10 years of the 30-year period being analyzed, the breakeven interest rate is very close to the current fixed rate.

KENTUCKY UTILITIES COMPANY**CASE NO. 2000-052****Response to Commission's Order
Dated February 23, 2000****Question No. 4****Responding Witness: Charles A. Markel**

Q4. Provide an explanation along with supporting documentation of the assumptions and calculations used in the debt refunding analysis provided in Exhibit 3, page 2. Include in the discussion an explanation of why the interest rate of 3.75 percent was assumed and applied to each year over the 25-year life of the bonds instead of a mix of variable and fixed rates.

A4. The underlying assumptions in the debt refunding analysis are described in item 3 above. Based on current market conditions, we could refinance with fixed rates that are currently lower than the existing rates on the bonds. However, variable rates have averaged significantly less than fixed rates and therefore provide the opportunity for much greater interest expense savings as demonstrated in the comparison of the variable rate BMA Index and the fixed rate Revenue Bond Index (see Exhibit 9).

The Revenue Bond Index is an index of highly rated, long-term fixed rate municipal bonds. Because variable rates are more cost effective than fixed rates on a historical basis, we do not assume a mix of fixed and variable rates in the analysis.

KENTUCKY UTILITIES COMPANY**CASE NO. 2000-052****Response to Commission's Order
Dated February 23, 2000****Question No. 5****Responding Witness: Charles A. Markel**

- Q5.** KU stated in its application that it may enter into one or more liquidity facilities ("Current Facility") with a bank or banks in order to replace its existing Current Facility with one that contains terms and conditions more favorable to KU. Explain why KU expects to obtain more favorable terms and conditions now than it obtained when the original bonds were first issued. Provide specific examples of the areas in which KU expects it could obtain more favorable terms and conditions.
- A5.** KU may enter into one or more liquidity facilities in order to obtain terms and conditions more favorable to KU than those provided for in facilities that currently exist or that will exist in the future. Terms and conditions that could become more favorable in the future would include items such as the amount of the annual facility fee, the interest rate charged on any borrowed amounts, length of maturity, collateral provisions, the willingness of banks to provide such facilities, etc. While we can't predict that the bank market will become more favorable for these types of facilities or that company-specific situations will warrant more favorable terms, we should have the flexibility to replace such facility if conditions warrant.



March 1, 2000

LG&E Energy Corp.
220 West Main Street
PO Box 32030
Louisville, Kentucky 40232

Mr. Martin J. Huelsmann
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
Frankfort, Kentucky 40602

RE: Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations – Case No. 2000-052

Dear Mr. Huelsmann:

Accompanying this letter for filing in the above-referenced cases are the Responses of Kentucky Utilities Company to the Commission's Orders of February 23, 2000. An original and 5 copies of each Response is enclosed.

On February 1, 2000, Kentucky Utilities Company ("KU") filed an Application for Approval of Financing ("the Application") with the Commission. This application requests the Commission's approval for KU to refinance one series of tax-exempt pollution control revenue bonds ("the Refunding Bonds"). On page 4 of its application, KU stated, "...the structure and documentation for the issuance of the Refunding Bonds and related agreements would be similar to the structure and documentation of other pollution control financings of KU approved by this Commission in the past, except that first mortgage bonds of KU would not be issued to secure the Refunding Bonds".

KU's intent, as indicated in the Application, was to issue unsecured Refunding Bonds. However, as a result of changes to KU's credit ratings, it is more cost effective in today's market for the Company to issue secured bonds. KU, therefore, may provide notes or bonds to secure its payment obligations under the Refunding Bonds. Such notes or bonds may be initially secured or unsecured by one or more series of the Company's First Mortgage Bonds, with such security being released when all previously issued First Mortgage Bonds have been retired, whether at maturity, through redemption or otherwise. KU, therefore, intends to issue Refunding Bonds that will be secured with a like amount of the Company's First Mortgage Bonds. KU notes that this change in the Application will result in Refunding Bonds that are similar in structure to the existing bonds, which are currently secured by the Company's First Mortgage Bonds.

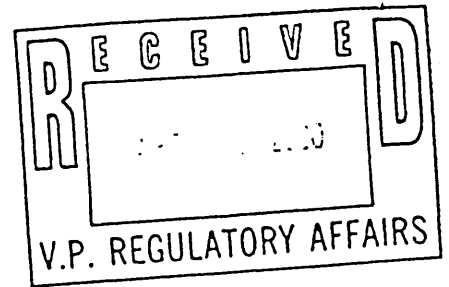
If further information is required, please advise the undersigned.

Sincerely yours,

Ronald L. Willhite
Director
Regulatory Affairs



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
211 SOWER BOULEVARD
POST OFFICE BOX 615
FRANKFORT, KY 40602
(502) 564-3940



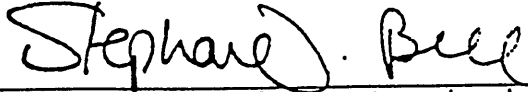
CERTIFICATE OF SERVICE

RE: Case No. 2000-052
KENTUCKY UTILITIES COMPANY

I, Stephanie Bell, Secretary of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the following by U.S. Mail on March 31, 2000.

Parties of Record:

Mr. Ronald L. Willhite
Director Regulatory Affairs
LG&E Energy Corporation
220 West Main Street
P. O. Box 32030
Louisville, KY. 40232


Secretary of the Commission

SB/hv
Enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY UTILITIES)	
COMPANY FOR AN ORDER AUTHORIZING)	CASE NO. 2000-052
THE ISSUANCE OF SECURITIES AND THE)	
ASSUMPTION OF OBLIGATIONS)	

O R D E R

On February 1, 2000, Kentucky Utilities Company ("KU") filed an application to issue one series of tax-exempt pollution control revenue bonds in an aggregate principal amount not to exceed \$13,400,000 and to assume certain obligations in connection therewith. KU will use the proceeds to refinance the principal amount of Mercer County, Kentucky, 7.37 percent Pollution Control Revenue Bonds, 1990 Series A Bonds due May 1, 2010 and Mercer County, Kentucky, 7.60 percent Pollution Control Revenue Bonds, 1990 Series A Bonds due May 1, 2020. Although the existing revenue bonds are backed by first mortgage bonds, LG&E indicated that the proposed refinancing bonds will not be similarly secured. The overall purposes of the proposed financing are to extend the maturities of the two existing series of tax-exempt pollution control revenue bonds and reduce the cost of debt over the extended period.

KU provided additional information on March 3, 2000 and March 14, 2000 in response to a Commission information request. In its March 3, 2000 response, KU revised its application, based on changes to its current credit ratings, to include the issuance of first mortgage bonds to secure the proposed refinancing bonds.

KU provided information in the application that indicated that it should be able to negotiate a fixed interest rate of 6.30 percent to 6.50 percent and a variable rate of approximately 3.50 percent on the refinancing bonds, assuming current interest rates prevail.¹ KU also stated that "we do not expect the initial rate will exceed 7.00 percent unless serious disruptions in the capital markets occur, or the Company experiences adverse circumstances or events."² KU indicated that it would realize savings as long as the interest rate for the proposed refundings did not exceed 7.56 percent for the Series due in 2020 and 7.78 percent for the Series due in 2010.³

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the issuance of the proposed refinancing bonds at an interest rate that results in a net present value savings over the existing financing is for lawful objects within the corporate purposes of KU's utility operations, is necessary and appropriate for and consistent with the proper performance of its service to the public, will not impair its ability to perform that service, is reasonably necessary and appropriate for such purposes, and should therefore be approved.

IT IS THEREFORE ORDERED that:

1. KU is authorized to issue one series of tax-exempt pollution control revenue bonds in an aggregate principal amount not to exceed \$13,400,000 and to assume certain obligations in connection therewith.

¹ Charles Markel testimony, filed February 4, 2000, at 13.

² Id. at 7-8.

³ KU response filed March 14, 2000.

2. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in the application.

3. KU shall agree only to such terms and prices that are consistent with the parameters set out in its application and which produce net present value savings over the existing financing.

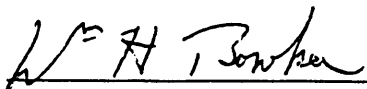
4. KU shall, within 30 days from the date of issuance, file with this Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the price paid, the interest rate, and all fees and expenses, including underwriting discounts or commission or other compensation, involved in the issuance and distribution.

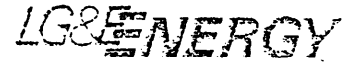
Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 31st day of March, 2000.

By the Commission

ATTEST:

Deputy  Executive Director



Ronald L. (Ron) Willhite
Vice President - Regulatory Affairs

LG&E Energy Corp.
220 West Main Street
P.O. Box 32030
Louisville, Kentucky 40232
502-627-2044
502-627-2585 FAX

February 1, 2000

Mr. Martin J. Huelsmann
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
P. O. Box 615
Frankfort, Kentucky 40602

RE: Application of Kentucky Utilities Company

Dear Mr. Huelsmann:

You will find enclosed fourteen copies of the application of Kentucky Utilities Company for an order authorizing one series of tax-exempt pollution control revenue bonds in an aggregate principal amount not to exceed \$13,400,000 and the assumption of obligations in connection therewith. The overall purposes of the proposed financing are to extend the maturities of two existing series of tax-exempt pollution control revenue bonds and reduce the cost of debt over the extended period. Included in the filing are the following:

- a. The Application of the Company for an order authorizing the Company to issue securities and assume obligations;
- b. The Exhibits to the Application; and,
- c. Testimony of Charles A. Markel.

An extra copy of the Application is enclosed. I would appreciate it being returned to me showing the case number and a "Filed" stamp.

If further information is required, please advise the undersigned.

Sincerely yours,

Ronald L. Willhite

RLW:dl

Enclosures